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As filed with the Securities and Exchange Commission on September 15, 2006

Registration No. 333-121001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT No. 4
TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

ExlService Holdings, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	541990	82-0572194
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(IRS Employer Identification No.)

350 Park Avenue
New York, New York 10022
(212) 277-7100
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Vikram Talwar
Chief Executive Officer
ExlService Holdings, Inc.
350 Park Avenue
New York, New York 10022
(212) 277-7100
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

John C. Kennedy, Esq. Paul, Weiss, Rifkind, Wharton & Garrison LLP 1285 Avenue of the Americas New York, New York 10019-6064 (212) 373-3000	Amit Shashank, Esq. General Counsel and Vice President ExlService Holdings, Inc. 350 Park Avenue New York, New York 10022 (212) 277-7100	Janet L. Fisher, Esq. Cleary Gottlieb Steen & Hamilton LLP One Liberty Plaza New York, New York 10006 (212) 225-2000

Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ☐

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ☐

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ☐

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed maximum aggregate offering price (1) (2)	Amount of registration fee
Common Stock, par value $0.001	$60,000,000	$6,420(3)

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) of the Securities Act of 1933.
(2) Including additional shares of common stock which may be purchased by the underwriters at their option.
(3) A registration fee of $9,503 was previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated September 15, 2006.

Shares

ExlService Holdings, Inc.

Common Stock

This is an initial public offering of shares of common stock of ExlService Holdings, Inc., all of which are being offered by us.

Prior to this offering, there has been no public market for the common stock. We currently estimate that the initial public offering price per share will be between $ and $ per share. We have applied to list our common stock on the Nasdaq Global Market under the symbol "EXLS."

Investing in our common stock involves risks. See "Risk Factors" beginning on page 12 to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount and commission	$	$
Proceeds, before expenses	$	$

To the extent that the underwriters sell more than shares of our common stock, they have the option to purchase up to an additional shares from us at the public offering price less the underwriting discount. Up to 5% of the shares offered hereby have been reserved for sale at the initial public offering price to specified persons under our directed share program.

The underwriters expect to deliver the shares to purchasers against payment in New York, New York on , 2006.

Citigroup **Goldman, Sachs & Co.**

Merrill Lynch & Co. **Thomas Weisel Partners LLC**

Prospectus dated , 2006.

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global solutions.
value delivered.

You should rely only on the information contained in this prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. Neither we nor the underwriters are making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus or such other date stated in this prospectus.

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Until   , 2006 (25 days after the date of this prospectus), all dealers that buy, sell or trade our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers’ obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

INDUSTRY AND MARKET DATA

Industry and market data used throughout this prospectus were obtained through company research, surveys and studies conducted by third parties, and industry and general publications. The information contained in the joint report, or the NASSCOM-McKinsey report, published by the National Association of Software and Service Companies, or NASSCOM, and McKinsey & Company, or McKinsey, in December 2005, is based on studies and analysis of surveys of business process outsourcing service providers and customers conducted by McKinsey.

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PROSPECTUS SUMMARY

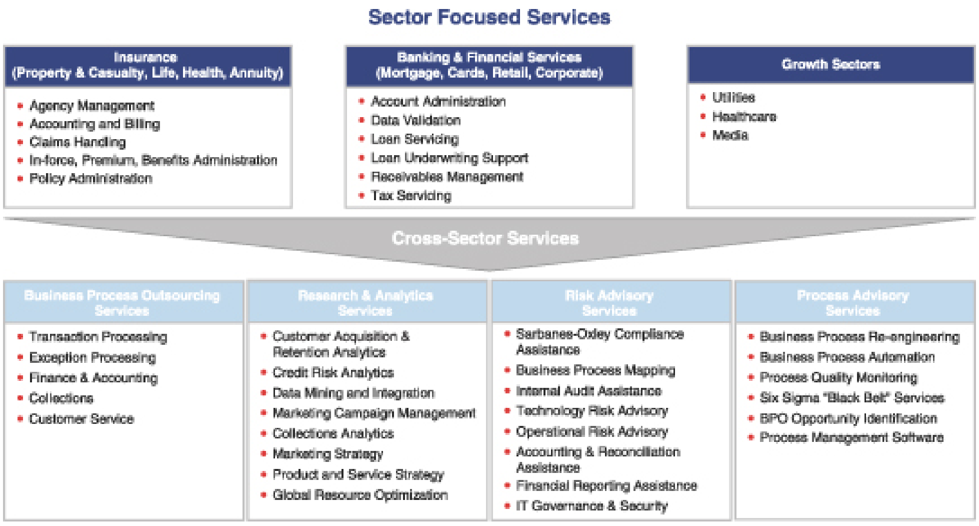
This summary highlights all material information about us and this offering, but does not contain all of the information you should consider before investing in our common stock. You should read this entire prospectus carefully, including "Risk Factors" and the consolidated financial statements and related notes included herewith. This prospectus includes forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements." Except where otherwise indicated, all information presented in this prospectus on a pro forma basis gives effect to the acquisition of Inductis, Inc., or Inductis, as described under "Unaudited Pro Forma Consolidated Financial Information" and "The Inductis Acquisition."

The Company

Our Business

We are a recognized provider of offshore business process outsourcing services, primarily serving the needs of Global 1000 companies in the banking, financial services and insurance sector. We provide a broad range of outsourcing services, including business process outsourcing services, research and analytics services and advisory services. The business process outsourcing services we provide 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. Our research and analytics services are intended to facilitate more effective data-based strategic and operating decisions by our clients using statistical and quantitative analytical techniques. Our advisory services include risk assessment, documentation and internal controls testing, business process re-engineering and process quality monitoring. Our revenues have grown from $27.8 million in 2003 to $60.5 million in 2004 and $74.0 million in 2005 for a compound annual growth rate of 63.2% during that period. Our revenue growth over the three-year period is driven by a combination of new clients, ongoing growth in existing client relationships as well as the inclusion of full-year revenues from clients added in the preceding year. On a pro forma basis, our revenues were $60.4 million for the six months ended June 30, 2006.

We combine in-depth knowledge of the banking, financial services and insurance, or BFSI, sector with proven expertise in transferring business operations to our centers in India and administering and managing them for our U.S. and U.K.-based clients. We have successfully transferred more than 225 processes covering a broad array of products and services from 22 clients to our operations centers. With our recent acquisition of Inductis, a provider of research and analytics services, we have expanded the types and sophistication of research and analytics services we offer. We believe that this acquisition will cause an increasing proportion of our revenues to be derived from these services. We have begun to expand our service offerings to other sectors with similar needs, such as utilities, healthcare and media, by leveraging our experience in the BFSI sector and operational expertise. Our services include:



Our largest clients in 2005, on a pro forma basis, were Norwich Union (an Aviva company), American Express Financial Corporation, or American Express, and Dell (including Dell Financial Services). Other clients include Centrica plc, Prudential Financial, Indymac Bank, one of the three largest U.S. banks, two of the five largest U.S. insurers and one of the largest global providers of business information. Our operations centers are located in India, which enables us to leverage India's large pool of highly qualified and educated English-speaking technical professionals, who are able to handle complex processes and services that require functional skills and industry expertise. We also believe we can offer consistently high quality services at substantially lower costs than those available from in-house facilities or U.S. or U.K.-based outsourcing providers. Our total number of employees, substantially all of whom are based in India, has grown from approximately 1,800 at December 31, 2002 to approximately 7,300 at July 1, 2006.

Our Industry

Business process outsourcing, or BPO, providers work with clients to develop and deliver operational improvements with the goal of achieving higher performance at lower costs. Outsourcing of business processes is a long-term strategic commitment for companies that, once implemented, is generally not subject to cyclical spending or information technology budget reductions. Organizations in the BFSI sector, in particular, 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.

Market Opportunity

The NASSCOM-McKinsey report estimates that the offshore BPO industry will grow at a 37.0% compound annual growth rate, from $11.4 billion in fiscal 2005 to $55.0 billion in fiscal 2010. The report identifies the banking and insurance industries as representing 50% of the potential offshore BPO market and estimates that providers have captured less than 10% of the total opportunity, even in industries that began outsourcing processes early on such as insurance (life, health, and property and casualty) and retail banking (including deposits and lending, credit cards, mortgages, and loans). The report estimates that India-based companies accounted for 46% of offshore BPO revenue in fiscal 2005 and that India will retain its dominant position as the most favored offshore BPO destination for the foreseeable future. It forecasts that the Indian offshore BPO market will grow from $5.2 billion in revenue in fiscal 2005 to $25.0 billion in fiscal 2010, representing a compound annual growth rate of 36.9%. The report and the data within the report are based on studies and analysis of surveys of BPO service providers and customers conducted by McKinsey & Company.

EXL's Competitive Strengths and Business Strategy

Competitive Strengths

We believe we have a number of competitive strengths, including:

Deep and Comprehensive BPO Processing Experience Within the BFSI Sector. With 85.8% of our pro forma BPO revenues in 2005 derived from the BFSI sector, we have gained a deep understanding of that sector, especially in functions such as loan underwriting support, claims processing, premium research and reconciliation, collections and accounts receivable management. Our expertise stems from our early association with Conseco Inc., or Conseco, and has allowed us to provide a full range of services to our clients. While the outsourcing industry is highly fragmented, we believe that we are recognized within the industry and among prospective clients as being among a small number of BPO companies that can offer depth of expertise in the BFSI sector.

Long-term Client Relationships that Result in a High Level of Recurring and Predictable Revenues in Our BPO Business. A substantial majority of our BPO services are provided under long-term contracts with initial terms ranging from three to seven years. This contract structure provides us with relatively predictable and recurring revenues for a substantial portion of our business and reduces our sales and marketing costs relative to project-based service providers.

In 2005, 38.3% of our pro forma revenues were generated by our largest BPO client under two framework agreements and work orders generated by these agreements. The first framework agreement expires in January 2007 and can be terminated by our client for cause only during its initial term, but work orders under that agreement cannot be terminated without cause before July 1, 2007. The second framework agreement expires in July 2009 and can be terminated by our client without cause upon six months prior notice and payment to us of a break-up fee during its initial term. In 2005, 11.9% of our pro forma revenues were generated by our second-largest BPO client under two main agreements. The first agreement expires on November 1, 2006, is automatically renewable for additional one-year terms and can be terminated by our client at any time and without cause with 30 days prior notice. The second agreement does not have a specified initial term and can be terminated at any time and without cause with 90 days prior notice. Contracts with other BPO clients representing approximately 3.6% of our pro forma revenues in 2005 will expire within 12 months, while the remainder of our BPO contracts expire in more than one year, or do not have specified initial terms and remain in effect until terminated or until there are no work orders or engagement schedules. Our other BPO clients can terminate their contracts without cause during the initial term.

Strong Focus on Process Migration, Operations Management and Process Excellence. Our ability to deliver continuous process improvements and our reputation for superior service have proven to be strong competitive advantages when developing new client relationships. Our process migration expertise, which combines industry knowledge, process and project management techniques and a consultative approach by which our services are tailored to meet the client's specific needs, has enabled us to successfully transfer more than 225 processes from 22 clients. We use well-known techniques to continually improve the services we offer, including the Six Sigma methodology for reducing defects in business operations and Kaizen initiatives, which stress continuous incremental improvements in each stage of a business process. We have also developed proprietary tools to identify and continue to deliver process improvements for our clients. We have been awarded an ISO 9001:2000 certification for quality assurance, a BS7799 certification for information security and an OHSAS certification for employee health and safety.

Robust Human Resources and Technology Infrastructure. Our investment in employee recruitment, training and retention provides us with the ability to rapidly increase the scale of our operations to respond to the needs of our clients. We currently have the ability to recruit and train an average of 390 employees per month and believe that the strength of our human resource function will enable us to continue to attract highly qualified and motivated employees, notwithstanding competitive pressures. We have also developed an extensive technological infrastructure with a focus on redundancies, scalability and, most importantly, information security.

Experienced Management Team With a Significant Equity Stake. We pride ourselves on the strength and depth of our management and their continued commitment to our ongoing success. With the Inductis acquisition, we have significantly expanded the depth of our management pool, including senior managers with long-term client relationships in key areas of our business. Our top 31 senior managers at or above the level of vice president have an average of approximately ten years of experience in the BFSI sector and extensive working experience with the business practices of multinational corporations. In addition, 32 members of our senior management team beneficially own 24.3% of our outstanding common stock and will continue to beneficially own   % of our outstanding common stock following the consummation of this offering. The incentives that we provided in the Inductis acquisition, including through earnout and similar contingent payments, are intended to accomplish the same alignment of interests and motivate Inductis management to develop the significant market opportunity in the area of research and analytics.

Competitive Weaknesses

As further described in "Risk Factors" beginning on page 12 of this prospectus, our operations face a number of risks. For example, our revenues depend substantially on three clients and a few industries. In addition, wage increases in India may prevent us from sustaining our competitive advantage and may reduce our profit margin. Furthermore, if we fail to effectively manage our rapid infrastructure and personnel growth, there could be a material adverse effect on our business, results of operations, financial condition and cash flows. Finally, the market for outsourcing services is highly competitive, and we expect competition to intensify from a number of sources.

Business Strategy

Our goal is to become the leading provider of BPO, research and analytics and advisory services in the BFSI sector and other sectors that we believe have significant potential, such as utilities, healthcare and media. Specific elements of our growth strategy include:

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

Offering a Broad Range of Outsourcing Services. We seek to differentiate ourselves by emphasizing the broad range of outsourcing services that we provide. Many of our services are complementary, enabling us to combine them and provide a more sophisticated overall level of service for our clients. We will continue to identify opportunities for cross-selling our service offerings and enhancing client satisfaction.

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 developing such relationships, we continue to be highly selective and seek industry-leading clients who are committed to long-term and strategic relationships with us.

Extending Our Industry Expertise. We intend to continue to strengthen our processing capabilities for the BFSI sector and other high-potential sectors by focusing on the more complex and value-enhancing services that are common to these sectors. We have begun to implement this strategy, expanding into the utilities, healthcare and media sectors during 2006.

Continuing to Focus on Complex Processes. We intend to continue to leverage our industry expertise to provide increasingly more complex services for our clients. As a result of our established and developing industry expertise and knowledge of our clients' businesses and processes, our employees are able to handle processes that are non-routine and that cannot be readily automated or transferred to other parties.

Continuing to Invest in Operational Infrastructure. We will continue to invest in infrastructure, including human resources, process optimization and delivery platforms, to meet our growing client requirements. We will also continue to invest in developing and refining methodologies and analytical models and tools.

Pursuing Strategic Relationships and Acquisitions. We will continue to selectively consider strategic relationships with industry leaders or acquisitions or investments, such as the Inductis acquisition, that would expand the scope of our existing services, add new clients or allow us to enter new geographic markets.

Information about the Company

Our pre-predecessor, ExlService.com, Inc., or EXL Inc., a Delaware corporation, was formed on April 9, 1999 and began commercial operations in October 2000. On August 1, 2001, EXL Inc. was acquired by Conseco in the 2001 Acquisition, and operated as Conseco's wholly owned subsidiary until November 14, 2002.

We were formed by a group including Vikram Talwar, Rohit Kapoor, Oak Hill Capital Partners L.P., FTVentures and certain other senior members of our management team, and on November 14, 2002 we purchased EXL Inc. from Conseco in the 2002 Acquisition, and EXL Inc. became our wholly owned subsidiary.

We completed the acquisition of Inductis, a provider of research and analytics services, which we refer to as the Inductis Acquisition, on July 1, 2006. The Inductis Acquisition has expanded the types and sophistication of the research and analytics services we offer. Inductis had approximately 250 employees and had revenues of $13.6 million in the first six months of 2006 and $20.9 million in fiscal year 2005. We estimate that the total consideration for the Inductis Acquisition, including the assumption of liabilities, working capital adjustment, earnout and contingent payments and transaction costs, is approximately $31.9 million. We paid approximately $13.0 million at the closing of the Inductis Acquisition in the form of $2.4 million in cash, the issuance of 535,918 shares of our Series A common stock (shares of our common stock after giving effect to the Share Conversion), $0.9 million in transaction costs and a $0.4 million bonus payable in January 2007. We assumed $4.3 million of Inductis debt. We are obligated to make additional working capital adjustment, earnout and contingent payments to former holders of Inductis securities based on certain agreed-upon financial performance goals. The maximum number of shares to be issued in the earnout payment is 389,906 shares of Series A common stock (shares of our common stock after giving effect to the Share Conversion). The value of the contingent payment, payable in a mix of cash and additional shares of our common stock, the mix of which cannot be determined until the size of the contingent payment, if any, is determined, is expected to range from $0.6 million to $6.5 million. The actual value of the shares of our common stock to be issued in the earnout and contingent payments will vary based upon trading prices for our common stock at the time of issuance. See “The Inductis Acquisition” for a more detailed description of the terms of the Inductis Acquisition.

Our subsidiaries are EXL Inc., ExlService.com (India) Private Limited, an Indian corporation, or EXL India, Noida Customer Operations Private Limited, an Indian corporation, or NCOP, ExlService (U.K.) Limited, an entity formed in the United Kingdom, or EXL U.K., Exl Support Service Private Limited, an Indian corporation, or ESS, and Inductis, a Delaware corporation, and its wholly owned subsidiaries, Inductis LLC, a Delaware limited liability company, Inductis India Private Limited, an Indian corporation, or Inductis India, and Inductis (Singapore) PTE Ltd., a Singapore corporation.

The selected and other financial information included in this prospectus include those of both our company and our predecessor, EXL Inc. Periods prior to August 1, 2001 represent the accounts of EXL Inc. prior to the 2001 Acquisition, or the pre-predecessor; periods on or after August 1, 2001 and prior to November 15, 2002 represent the accounts of EXL Inc. after the 2001 Acquisition, or the predecessor; and periods on or after November 15, 2002 represent our accounts after the 2002 Acquisition, or the successor. Our fiscal year ends on December 31.

The unaudited pro forma financial and statistical information included in this prospectus reflect the Inductis Acquisition and are based on the historical financial statements of ExlService Holdings, Inc., or ExlService Holdings, and Inductis, subject to certain assumptions and adjustments.

ExlService Holdings was incorporated in Delaware on October 29, 2002. Our principal executive offices are located at 350 Park Avenue, New York, New York 10022, and our telephone number at that address is (212) 277-7100. Our website address is http://www.exlservice.com. The information on our website is not part of, nor is it incorporated into, this prospectus.

Unless the context indicates or requires otherwise, the terms “EXL,” “we,” “our,” “us” and “the company” refer collectively to ExlService Holdings and its wholly owned subsidiaries and all predecessor entities. ProMPT™, SOFT™, MOST™, ECS™ and MICROANALYTIX are unregistered trademarks of EXL or our subsidiaries.

In this prospectus, certain financial data has been rounded to ensure arithmetical accuracy. Certain U.S. dollar figures in this prospectus have been converted from Indian rupees at a rate of 45.56 rupees to $1.00, the exchange rate in effect on June 30, 2006, unless otherwise specified.

Share Conversion

Prior to this offering, we had two classes of common stock, our Series A common stock and Series B common stock. In accordance with the terms of our certificate of incorporation and our existing stock option plan arrangements, immediately prior to the consummation of this offering, each share of our Series B common stock will be converted automatically and without any action on the part of the holders or our part into one share of our Series A common stock, and each option to purchase shares of our Series B common stock will be adjusted to convert without any action on the part of the holders into an option to purchase the same number of shares of our Series A common stock. In addition, prior to the consummation of this offering, we will increase our total authorized number of shares of capital stock, make certain changes to our charter documents and effect a   to one stock split, which we refer to as the Stock Split. As a result, after this offering, we will only have one class of common stock outstanding, which will be referred to as common stock. Investors will be acquiring common stock in this offering. We refer to the conversion of all our shares of Series B common stock into Series A common stock, the Stock Split and the other transactions described above collectively in this prospectus as the “Share Conversion.”

After the Share Conversion and the consummation of this offering, we will have   shares of common stock outstanding (or   shares if the underwriters exercise their option in full) and   shares of common stock issuable upon the exercise of options to purchase common stock.   shares of common stock offered hereby (or   shares if the underwriters exercise their option in full) will be freely tradable. Following this offering, we intend to file a registration statement under the Securities Act registering   shares of our common stock reserved for issuance under our equity incentive plans and   shares held for resale by our existing stockholders that were previously issued under our equity incentive plans. In addition, we intend to enter into a registration rights agreement with certain of our stockholders pursuant to which these holders will have the right, subject to certain conditions and the expiration of the lock-up applicable to those stockholders in connection with this offering, to require us to file registration statements covering   shares of our common stock or to include those shares in registration statements that we may file on our behalf or on behalf of other stockholders.

Share Ownership

Assuming that the underwriters do not exercise their option to purchase additional shares, immediately following the Share Conversion and the consummation of this offering, Oak Hill Capital Partners L.P. and certain of its affiliates will beneficially own   shares (or   %) of our outstanding common stock; FTVentures and certain of its affiliates will beneficially own   shares (or   %) of our outstanding common stock; our Vice Chairman and Chief Executive Officer, Vikram Talwar, will beneficially own   shares (or   %) of our outstanding common stock; our President and Chief Financial Officer, Rohit Kapoor, will beneficially own   shares (or   %) of our outstanding common stock; and certain other members of our management will beneficially own, collectively,   shares (or   %) of our outstanding common stock.

Risk Factors

Investing in our shares involves risks, which include, among other things:

- We have a limited number of clients and provide services to few industries. In 2005, 62.8% of our pro forma revenues came from three clients and our contracts with two of those clients, representing 24.5% of such pro forma revenues, are terminable without cause with 30 days or less prior notice to us;

- 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;
- Our operating results may experience significant variability and as a result it may be difficult for us to make accurate financial forecasts;
- 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;
- Wage increases in India may prevent us from sustaining our competitive advantage and may reduce our profit margin;
- Our client contracts contain certain termination and other provisions, including provisions generally permitting our clients to terminate their agreements with us without cause and with limited prior notice generally ranging from 30 days to six months. As a result, our expected revenue stream could experience significant fluctuations;
- Our agreements with our largest client, Norwich Union, which represented 38.3% of our pro forma revenues in fiscal year 2005, give it the option to assume the operations of one of our facilities. Norwich Union has recently publicly announced its intention to start exercising its option to assume the operations of the facilities of certain of its third party vendor-contractors, including one of our facilities in Pune; and
- Oak Hill Capital Partners L.P. and FTVentures, which, together with certain of their respective affiliates, beneficially own 49.6% and 16.5%, respectively, of our outstanding voting stock have the ability to control substantially all matters brought before our board of directors and their interests in our business may be different than yours. They will continue to beneficially own % and %, respectively, of our outstanding common stock following the consummation of this offering.

See "Risk Factors" for a description of these and other risks of investing in our common stock.

The Offering

Common stock outstanding before this offering	shares.
Common stock offered by us	shares.
Common stock to be outstanding immediately after this offering	shares.
Use of proceeds	We expect to use the net proceeds from this offering: • to repurchase or redeem all outstanding shares of our Series A preferred stock held by certain of our directors, officers and significant stockholders; • to repay all outstanding senior promissory notes payable to certain of our directors, officers and significant stockholders; and • for working capital and general corporate purposes.
Proposed Nasdaq Global Market symbol	EXLS.
Directed Share Program	At our request, the underwriters have reserved up to 5% of the shares of common stock offered in this offering for sale at the initial public offering price to certain persons who are our directors, officers and employees, and certain friends and family members of these persons, and certain clients and prospective clients, through a directed share program.

Unless we specifically state otherwise, the information in this prospectus:

- assumes an initial public offering price of $ per share, the mid-point of the offering range set forth on the cover of this prospectus;
- gives effect to the Share Conversion;
- excludes, in the number of shares of common stock to be outstanding after this offering, options to purchase shares of common stock that are currently outstanding or to be granted effective upon consummation of this offering and any shares of common stock that may be issued as an earnout or contingent payment in connection with the Inductis Acquisition; and
- assumes no exercise of the underwriters' option to purchase up to additional shares. If the underwriters exercise this option in full, we will offer additional shares of common stock and any such shares that are sold will thereafter be outstanding. See "Underwriting."

Summary Historical and Pro Forma Consolidated Financial and Other Data

The following table sets forth our summary consolidated financial and other data for the six months ended June 30, 2006 and June 30, 2005, and the fiscal years ended December 31, 2005, 2004 and 2003.

The summary balance sheet data as of December 31, 2005, and the summary statement of operations data for the years ended December 31, 2005, 2004 and 2003 are derived from our consolidated financial statements, which have been audited by Ernst & Young LLP, our independent registered public accounting firm, and are included elsewhere in this prospectus. The balance sheet data as of June 30, 2006 and the income statement data for the six months ended June 30, 2006 and 2005 were derived from our unaudited consolidated financial statements for these periods which include all adjustments consisting of normal recurring adjustments that management considers necessary for a fair presentation of the financial position and results of operations for these periods. The results for any interim period are not necessarily indicative of the results that may be expected for the full year.

The following table also presents summary unaudited pro forma consolidated financial data for the year ended December 31, 2005 and as of and for the six months ended June 30, 2006 that give effect to the Inductis Acquisition. The unaudited pro forma consolidated statement of operations data for the year ended December 31, 2005 and the six months ended June 30, 2006 give effect to the Inductis Acquisition as if it had occurred at the beginning of the respective periods, and the unaudited pro forma consolidated balance sheet data at June 30, 2006 give effect to the Inductis Acquisition as if it had occurred on June 30, 2006. Such data has been derived from our audited and unaudited consolidated financial statements referred to above and the audited and unaudited financial statements of Inductis which are included elsewhere in this prospectus.

You should read the following information in conjunction with "Capitalization," "Selected Historical Consolidated Financial and Other Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," our audited and unaudited consolidated financial statements and related notes thereto and the audited and unaudited consolidated financial statements of Inductis and the related notes thereto included elsewhere in this prospectus. The summary unaudited pro forma consolidated financial data should be read in conjunction with the data set forth in "Unaudited Pro Forma Consolidated Financial Information."

	Pro Forma Six Months Ended June 30, 2006	Six Months Ended June 30,		Pro Forma Year Ended December 31, 2005	Year Ended December 31,		
		2006	2005		2005	2004	2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
	(in millions)						
Statement of Operations Data:							
Revenues(1)	$ 60.4	$ 46.8	$ 35.6	$ 94.9	$ 74.0	$ 60.5	$ 27.8
Cost of revenues(2)	38.3	29.9	23.7	58.4	47.6	38.7	18.4
Gross profit	22.1	16.9	11.9	36.5	26.4	21.8	9.4
Operating expenses:							
General and administrative expenses(3)	12.0	7.3	6.0	18.3	13.2	11.1	7.9
Selling and marketing expenses(3)	2.4	1.5	0.8	2.5	1.7	1.5	1.1
Depreciation and amortization	3.9	3.6	3.0	6.4	5.9	3.9	0.4
Amortization of intangibles	1.2	—	—	2.5	—	—	—
Impairment of loan receivable	0.3	—	—	2.8	—	—	—
Total operating expenses	19.8	12.4	9.8	32.5	20.8	16.5	9.4
Income (loss) from operations	2.3	4.5	2.1	4.0	5.6	5.3	—
Other income (expense):							
Foreign exchange gain (loss)	(0.7)	(0.7)	1.1	0.9	0.9	0.8	0.4
Interest and other income	0.7	0.6	0.2	0.9	0.7	0.2	0.2
Interest expense	(0.4)	(0.2)	(0.2)	(0.8)	(0.4)	(0.3)	(0.3)
Interest expense—redeemable preferred stock	—	—	(0.3)	(0.4)	(0.4)	(0.6)	(0.3)
Income before income taxes	1.9	4.2	2.9	4.6	6.4	5.4	—
Income tax (benefit) provision	0.3	0.5	0.2	(0.4)	(0.6)	—	0.8
Net income (loss)	1.6	3.7	2.7	5.0	7.0	5.4	(0.8)
Dividends and accretion on preferred stock	(0.3)	(0.3)	—	(0.2)	(0.2)	—	(0.2)
Net income (loss) to common stockholders	$ 1.3	$ 3.4	$ 2.7	$ 4.8	$ 6.8	$ 5.4	$ (1.0)
Other Unaudited Financial Data:							
EBITDA(4)	$ 7.7	$ 8.0	$ 6.4	$ 17.5	$ 13.1	$ 10.2	$ 1.0

	Pro Forma As Adjusted at June 30, 2006(5)	At June 30, 2006	At December 31, 2005
	(unaudited)	(unaudited) (in millions)	
Balance Sheet Data:			
Cash and cash equivalents	$	$ 24.3	$ 24.2
Working capital(6)		29.6	23.3
Total assets		68.0	62.6
Total debt		5.7	5.6
Series A preferred stock (liquidation preference)		6.5	6.2
Stockholders' equity		34.3	30.9

(1) In accordance with U.S. generally accepted accounting principles, or GAAP, we include the amount of telecommunications and travel-related costs that are billed to and reimbursed by our clients in our revenues. Revenues include reimbursable expenses of $2.0 million ($3.0 million on a pro forma basis) for the six months ended June 30, 2006, $1.6 million for the six months ended June 30, 2005, $3.4 million ($5.1 million on a pro forma basis) in 2005, $4.2 million in 2004 and $0.6 million in 2003.

(2) Cost of revenues includes non-cash amortization of deferred stock compensation expense relating to our issuance of stock options to employees directly involved in providing services to our clients. Cost of revenues excludes depreciation and amortization related to fixed assets.

(3) General and administrative and selling and marketing expenses, or SG&A expenses, include non-cash amortization of deferred stock compensation expense relating to our issuance of stock options to our non-operations staff.

(4) EBITDA represents net income (loss) to common stockholders before deductions for interest, income taxes, the effects of dividends and accretion on preferred stock and depreciation and amortization. EBITDA is a supplemental non-GAAP financial measure used by management, and industry analysts to evaluate operations.

The following is a reconciliation of net income to EBITDA (in millions):

	Pro Forma Six Months Ended June 30, 2006	Six Months Ended June 30,		Pro Forma Year Ended December 31, 2005	Year Ended December 31,		
		2006	2005		2005	2004	2003
Net income (loss) to common stockholders	$ 1.3	$ 3.4	$ 2.7	$ 4.8	$ 6.8	$ 5.4	$ (1.0)
Interest expense	(0.4)	0.2	0.2	0.8	0.4	0.3	0.3
Dividends and accretion on preferred stock	(0.3)	0.3	—	0.2	0.2	—	0.2
Interest expense—redeemable preferred stock	—	—	0.3	0.4	0.4	0.6	0.3
Income tax (benefit) provision	0.3	0.5	0.2	(0.4)	(0.6)	—	0.8
Depreciation and amortization and impairment	5.4	3.6	3.0	11.7	5.9	3.9	0.4
EBITDA	$ 7.7	$ 8.0	$ 6.4	$ 17.5	$ 13.1	$ 10.2	$ 1.0

We believe that EBITDA is useful to investors as a measure of comparative operating performance, as it is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges and more reflective of changes in pricing decisions, cost controls and other factors that affect operating performance. Management also uses EBITDA to develop incentive compensation plans and to measure operating performance. We are also presenting EBITDA because we believe it is useful to investors as a way to measure our ability to incur and service debt, make capital expenditures and meet working capital requirements. EBITDA is not intended as an alternative to net income as an indicator of our operating performance, or as an alternative to any other measure of performance in conformity with GAAP or as an alternative to cash flow from operating activities.

(5) As further adjusted to give effect to this offering and the application of the offering proceeds.

(6) Working capital means total current assets minus total current liabilities.

RISK FACTORS

Investing in our common stock involves substantial risks. In addition to the other information in this prospectus, you should carefully consider the following factors before investing in our common stock. Any of the risk factors we describe below could adversely affect our business, financial condition or results of operations. The market price of our common stock could decline if one or more of these risks and uncertainties develop into actual events, causing you to lose all or part of the money you paid to buy our shares. Certain statements in "Risk Factors" are forward-looking statements. See "Forward-Looking Statements."

Risks Related To Our Business

We have a limited number of clients and provide services to few industries. In 2005, 62.8% of our pro forma revenues came from three clients.

We have derived and believe that we will continue to derive a substantial portion of our revenues from a limited number of large clients. In 2005, our three largest clients, Norwich Union (an Aviva company), a United Kingdom-based company, American Express and Dell (including Dell Financial Services), accounted for 62.8% of our pro forma revenues under several contracts. We provide services to Norwich Union under two framework agreements and work orders generated by these agreements. The first framework agreement expires in January 2007 and can be terminated by our client for cause only during its initial term, but work orders under that agreement cannot be terminated without cause before July 1, 2007. The second framework agreement expires in July 2009 and can be terminated by our client without cause upon six months prior notice and payment to us of a break-up fee during its initial term. After these initial terms, Norwich Union may terminate these agreements without cause or penalty with six months notice. American Express may terminate its agreement with us at any time and without cause with five days prior notice. We provide services to Dell (including Dell Financial Services) under two main agreements. The first agreement expires on November 1, 2006, is automatically renewable for additional one-year terms and can be terminated by our client at any time and without cause with 30 days prior notice. The second agreement does not have a specified initial term and can be terminated at any time and without cause with 90 days prior notice. We expect that a significant portion of our revenues will continue to be contributed by a limited number of large clients in the near future. The loss or financial difficulties of any of our large clients would have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

A substantial portion of our BPO clients are concentrated in the BFSI sector. In 2005, 85.8% of our pro forma BPO revenues were derived from clients in those industries, including 66.9% of our pro forma BPO revenues that were derived from clients in the insurance industry. Our business and growth largely depend on continued demand for our services from clients and potential clients in these industries and those industries where we are focusing expansion efforts, such as utilities, healthcare and media. A downturn in any of these industries, particularly the insurance industry, or a slowdown or reversal of the trend to outsource business processes in any of these industries could decrease demand for our services. Other developments, such as consolidation, particularly involving our clients, could also cause the demand for our services in these industries to decline. In addition, our agreements with Norwich Union and American Express also contain certain restrictions (limited in duration or scope) on our ability to provide services to certain competitors of these entities without the approval of these entities.

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 the quarter ended June 30, 2006, our turnover rate for billable employees—employees who execute business processes for our clients following the completion of our six-month probationary period—was approximately 38%. There is significant competition for professionals in India 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 in India, 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 operating facilities where we have access to the skilled workforce needed for the business. In 2005, on a pro forma basis, we incurred approximately $1.0 million on recruitment and approximately $0.4 million on training costs due to employee turnover, thereby increasing our cost of revenues and reducing our pro forma profit margins for that period by $1.4 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 either 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.

Our agreements with our largest client give it the option to assume the operations of one of our facilities and operating subsidiaries, and the exercise of that option could have an adverse effect on our business and results of operations.

Under one of our agreements with Norwich Union, our largest client, Norwich Union has the option from January 2008 through February 2011 to purchase the shares of our subsidiary that operates one of our facilities in Pune, India, by paying us an amount approximating the net asset value of that facility on the date of transfer. The affected facility generated 18.5% of our pro forma revenues in the six months ended June 30, 2006 and 20.8% of our pro forma revenues in 2005. Norwich Union has recently publicly announced its intention to start exercising its option to assume the operations of the facilities of certain of its third party vendor-contractors, including one of our facilities in Pune. In addition, under our other agreement with Norwich Union, it also has the option to purchase certain of the assets of our operating subsidiary, EXL India, for the book value of those assets if we are in a material default of our agreement and such default affects the insurance services provided by more than 300 of our full-time employees or prejudices or is likely to prejudice the reputation of Norwich Union or its affiliates, or if there is a change of control that is not approved by Norwich Union. The exercise of either of these options would result in both a loss of revenues and a loss of our employees who are at that time working in the related facilities.

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

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

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

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

When we are engaged by a client after the selling process, 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 seven years. In many of our BPO contracts we commit to long-term pricing with our clients and therefore bear the risk of cost overruns, completion delays and wage inflation 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 if we fail to complete our contractual obligations within the contracted timeframe, our revenues and profitability may be negatively affected.

If we are unable to adjust our pricing terms to meet the changing demands of our BPO clients and potential BPO clients, our results of operations may be adversely affected.

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

Our research and analytics services and our advisory services are cyclical and based on specific projects involving short-term contracts.

Our research and analytics services and our advisory 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 the Sarbanes-Oxley Act of 2002, for example, could have a significant impact on certain risk advisory service offerings of our advisory services business.

In addition, our research and analytics services and our advisory services usually consist of specific projects with contract terms generally not exceeding one year and may not produce ongoing or recurring business for us once the project is completed. These contracts also usually contain provisions permitting termination of the contract after a short notice period. The short-term nature and specificity of these projects could lead to material fluctuations and uncertainties in the revenues generated from these businesses. In 2005, 31.6% of our pro forma revenues were generated by our research and analytics services and our advisory services.

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 operational facilities 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 under "Forward-Looking Statements." Our revenues are also affected by changes in pricing under our contracts at the time of renewal or by pricing under new contracts. For example, because the majority of our revenues are denominated in pounds sterling or U.S. dollars while most of our expenses are incurred and paid in Indian rupees, our revenues can decrease or increase significantly if the exchange rates among the Indian rupee, the pound sterling and the U.S. dollar fluctuate significantly. Furthermore, Dell, one of our largest clients, experiences seasonal changes in its operations in connection with the year-end holiday season and the school year, which affects our period-to-period results. In addition, some of our contracts do not commit our clients to provide us with a specific volume of business. These factors may make it difficult to make accurate financial forecasts or replace anticipated revenues that we do not receive as a result of delays in implementing our services or client losses. If our actual results do not meet any estimated results that we announce, or if we underperform market expectations as a result of such factors, trading prices for our common stock could be adversely affected.

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

Our future success substantially depends on the continued services and performance of the members of our management team and other key employees possessing technical and business capabilities, including industry expertise, that are difficult to replace. Specifically, the loss of the services of our Vice Chairman and Chief Executive Officer, Vikram Talwar, or of our President and Chief Financial Officer, Rohit Kapoor, could seriously impair our ability to continue to manage and expand our business. There is intense competition for experienced senior management and personnel with technical and industry expertise in the industry in which we operate, and we may not be able to retain these officers or key employees. Although we have entered into employment and non-competition agreements with all of our executive officers, certain terms of those agreements may not be enforceable and in any event these agreements do not ensure the continued service of these executive officers. 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 six operations facilities in India, including a new facility in Noida, India, that became operational in February 2006. Our employees have increased from approximately 1,800 on December 31, 2002 to approximately 7,300 on July 1, 2006. 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. In addition, we are actively looking at a few specific locations to invest in an operations facility outside of India and are contractually committed to one of our clients to do so by March 2007. 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 facilities 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.

Wage increases in India 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. 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 to 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. In addition, as the U.S. dollar declines in value against the Indian rupee, wages in the United States will decrease relative to wages in India, which may further reduce our 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 research and analytics services and advisory services than for employees performing other BPO services. As the scale of our research and analytics services and our advisory services increases, wages as a percentage of revenues will likely increase. Wage increases in the long term may reduce our profit margins. Additionally, because substantially all of our employees are based in India and paid in Indian rupees, while our revenues are primarily in U.S. dollars and pounds sterling, our employee costs as a percentage of revenues may increase or decrease significantly if the exchange rates among the Indian rupee, the pound sterling and the U.S. dollar fluctuate significantly.

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

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

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

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

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

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

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 BFSI market. 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 recent publicity about the negative experience of certain companies that use offshore outsourcing, particularly in India. Current or prospective clients may elect to perform such services themselves or may be discouraged from transferring these services to offshore providers to avoid any negative perception that may be associated with using an offshore provider. Any slowdown or reversal of existing industry trends would harm our ability to compete effectively with competitors that operate out of facilities located in the United States and elsewhere.

A variety of U.S. federal and state legislation has been proposed that, if enacted, could restrict or discourage U.S. companies from outsourcing their services to companies outside the United States. For example, legislation has been proposed that would require offshore providers to identify where they are located. Because most of our clients are located in the United States, any expansion of existing laws or the enactment of new legislation restricting offshore outsourcing could adversely impact our ability to do business with U.S. clients and have a material and adverse effect on our business, results of operations, financial condition and cash flows. In addition, it is possible that legislation could be adopted that would restrict U.S. private sector companies that have federal or state government contracts 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 where we derived 40.4% of our pro forma revenues in 2005, there has also been some negative publicity and concern expressed regarding the possible effect of job losses caused by outsourcing. Recent legislation introduced in the United Kingdom (consolidating past case law) 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 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 service level agreements we enter into in the future with United Kingdom clients. Although we are not yet able to assess at this time the potential impact of this new legislation, which came into effect in April 2006, we expect this legislation to have a material adverse effect on potential business from clients in the United Kingdom.

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

The market for outsourcing services is highly competitive, and we expect competition to intensify and increase from a number of sources. We believe that the principal competitive factors in our markets are price, service quality, sales and marketing skills, the ability to develop customized services and technological and industry expertise. We face significant competition for our services from our clients' own in-house groups, including, in some cases, in-house groups operating offshore. For example, Norwich Union, our largest client, has the option under one of our contracts to purchase the shares of our subsidiary that operates one of our facilities in Pune, India. Norwich Union has recently publicly announced its intention to start exercising its option to assume the operations of the facilities of certain of its third party vendor-contractors, including one of our facilities in Pune. We also face competition from non-U.S.-based outsourcing and information technology, or IT, companies (including those in the United Kingdom and India) and U.S.-based outsourcing and IT companies. In addition, the trend toward offshore outsourcing, international expansion by foreign and domestic competitors and continuing technological changes will result in new and different competitors entering our markets. These competitors may include entrants from the communications, software and data networking industries or entrants in geographic locations with lower costs than those in which we operate. Some of these existing and future competitors have greater financial, personnel and other resources, longer operating histories, a broader range of service offerings, greater technological expertise, more recognizable brand names and more established relationships in industries that we currently serve or may serve in the future. In addition, some of our competitors may enter into strategic or commercial relationships among themselves or with larger, more established companies in order to increase their ability to address client needs, or enter into similar arrangements with potential clients. The trend in multi-vendor relationships has been growing, which could reduce our revenues to the extent that clients obtain services from other vendors. Increased competition, our inability to compete successfully against competitors, pricing pressures or loss of market share could result in reduced operating margins, which could harm our business, results of operations, financial condition and cash flows.

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

We provide services to Norwich Union under two framework agreements and work orders generated by these agreements. The first framework agreement expires in January 2007 and can be terminated by our client for cause only during its initial term, but work orders under that agreement cannot be terminated without cause before July 1, 2007. The second framework agreement expires in July 2009 and can be terminated by our client without cause upon six months prior notice and payment to us of a break-up fee during its initial term. After the initial term expires, these agreements can be terminated without cause or penalty by Norwich Union with six months notice. "Cause" under the Norwich contracts includes our failure to perform services agreed upon in a specific work order adequately, disposal of our material assets, our filing for bankruptcy or a change of control where our new controlling party is a named competitor of Norwich Union. Our agreement with American Express, which represented 12.6% of our pro forma revenues in 2005, permits American Express to terminate the agreement at any time and without cause with five days prior notice. We provide services to Dell (including Dell Financial Services) under two main agreements which represented 11.9% of our pro forma revenues in 2005. The first agreement expires on November 1, 2006, is automatically renewable for additional one-year terms and can be terminated by our client at any time and without cause with 30 days prior notice. The second agreement does not have a specified initial term and can be terminated at any time and without cause with 90 days prior notice. Contracts representing approximately 3.6% of our pro forma revenues from our other BPO clients in 2005 will expire within 12 months. The termination of a substantial percentage of these contracts with or without cause could have a material adverse impact on the predictability of our expected revenue stream. Many of our client contracts do not commit our clients to provide us with a specific volume of business, and 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.

Oak Hill Capital Partners, FTVentures, certain of their respective affiliates, Vikram Talwar, Rohit Kapoor and certain other members of management will continue to exercise significant influence over us, and their interests in our business may be different than yours.

Almost all of the issued and outstanding shares of our common stock are currently beneficially owned by Oak Hill Capital Partners L.P., FTVentures and certain of their respective affiliates, our Vice Chairman and Chief Executive Officer, Vikram Talwar, our President, Rohit Kapoor, and certain other members of management. Assuming that the underwriters do not exercise their option to purchase additional shares, immediately following the consummation of this offering, Oak Hill Capital Partners L.P. and certain of its affiliates will beneficially own shares (or %) of our outstanding common stock; FTVentures and certain of its affiliates will beneficially own shares (or %) of our outstanding common stock; Mr. Talwar will beneficially own shares (or %) of our outstanding common stock; Mr. Kapoor will beneficially own shares (or %) of our outstanding common stock; and certain other members of our management will beneficially own shares (or %) of our outstanding common stock. Accordingly, each of these parties can exercise significant influence over our business policies and affairs and all matters requiring a stockholders' vote, including the composition of our board of directors, the adoption of amendments to our certificate of incorporation and the approval of mergers or sales of substantially all of our assets. This concentration of ownership also may delay, defer or even prevent a change in control of our company and may make some transactions more difficult or impossible without the support of these stockholders. The interests of these stockholders may conflict with your interests.

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

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

We may not be able to realize in full all of the benefits that we anticipate from the Inductis Acquisition.

The value of our common stock will reflect the combined results of ExlService Holdings and Inductis, and will be affected by our ability to achieve the benefits expected from the Inductis Acquisition. Achieving these benefits will depend in part upon meeting the challenges inherent in the successful combination of two business enterprises of the size and scope of ExlService Holdings and Inductis, which include the possible loss of management-level and highly qualified employees and the possible inability to integrate the management culture and enterprise systems and operations of these two companies. We may not be able to meet these challenges, which could have a material adverse effect on our operations following the Inductis Acquisition and prevent the combined company from realizing any of the anticipated benefits of the Inductis Acquisition.

In addition, the senior management of Inductis has significant relationships with key Inductis clients, and the services provided by Inductis are highly dependent on developing client relationships of trust and confidence. The loss of any member of the senior management of Inductis could adversely affect our relationship with those clients or result in the loss of their business.

We have a limited independent operating history and our future business prospects are difficult to evaluate.

We have a limited operating history. We started commercial operations in our first facility in October 2000. In August 2001, we were acquired by our then-largest client, Conseco, and until November 2002, we operated as Conseco's subsidiary. While substantially all of our revenues were generated by Conseco and its affiliates in 2001 and 2002, in November 2002, our ownership again changed, and since that time revenues from Conseco and its affiliates have substantially decreased to $1.5 million, $1.5 million and $4.9 million in 2005, 2004 and 2003, respectively. We have serviced large unaffiliated clients only for a limited time, and we may not continue to succeed in securing or retaining additional business from non-affiliates. In addition, we did not become profitable until the three months ended September 30, 2003, and we incurred losses in each of our financial reporting periods until that quarter. We may incur additional operating losses in the future, and we may not remain profitable.

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 all but one U.S. state that have non-exempt requirements and have separate "per-customer" exemptions with respect to our ongoing collection obligations. Other federal laws and regulations that apply to certain portions of our business include the Fair Credit Reporting Act, the Gramm-Leach-Bliley Act, the Health Insurance Portability and Accountability Act of 1996, the Truth in Lending Act, the Fair Credit Billing Act and U.S. Federal Deposit Insurance Corporation, or the FDIC, rules and regulations. If we do not maintain our licenses or other qualifications to provide our services, we may not be able to provide services to existing customers or be able to attract new clients and could lose revenues, which could have a material adverse effect on our business. In addition, our failure to comply with any applicable laws and regulations could subject us to civil fines and criminal penalties.

We will incur increased costs as a result of being a public company subject to the Sarbanes-Oxley Act of 2002, and our management faces challenges in implementing those requirements.

As a public company, we will incur significant additional legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission, or the Commission, and the Nasdaq Global Market, have required more regulation and more corporate governance practices of public companies. We expect that our legal and financial compliance costs will increase and that a significant portion of management's time will be diverted to comply with these rules. For example, we are reviewing and adopting comprehensive new policies regarding internal control over financial reporting and disclosure controls and procedures. We are also evaluating and testing our internal controls systems in anticipation of compliance with Section 404 of the Sarbanes-Oxley Act. If we do not implement the requirements of Section 404 in a timely manner or with adequate compliance, we may not be able to accurately report our financial results or prevent fraud and might be subject to sanctions or investigation by regulatory authorities, such as the Commission. Any such action could harm our business or investors' confidence in our company, and could cause our stock price to fall. We will also incur additional costs associated with our reporting requirements as a public company. We also expect that the need to comply with these rules and regulations will make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified candidates to serve on our board of directors or as executive officers.

Risks Related to India and the International Nature of our Business

Our financial condition could be negatively affected if the Government of India reduces or withdraws tax benefits and other incentives it currently provides to companies within our industry, or if the same are not available for other reasons.

Under the Indian Finance Act, 2000, we currently benefit from a holiday from Indian corporate income taxes. As a result, our service operations have been subject to relatively lower tax liabilities. We incurred minimal income tax expense in 2005 as a result of the tax holiday, compared to approximately $2.4 million that we would have incurred if the tax holiday had not been available for that period (without accounting for double taxation treaty set-offs). The Indian Finance Act, 2000 phases out the tax holiday over a ten-year period from fiscal 2000 through fiscal 2009. Our current tax holidays expire by location by 2009. When our tax holiday expires or terminates, our tax expense will materially increase.

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

The Indian taxing authorities recently issued an assessment order with respect to their audit of EXL India's 2003-04 tax year alleging that the transfer price we applied to transactions between EXL India and EXL Inc. was not appropriate and disallowing certain expenses claimed as tax deductible by EXL India. Indian transfer pricing regulations require that any international transaction involving related corporations be at an arms' length price. Transactions among our subsidiaries and us may be considered such transactions. This assessment demands that EXL India pay additional taxes in the amount of 96,796,762 Indian rupees (approximately $2.1 million at the exchange rate in effect on June 30, 2006).

The Indian taxing authorities also recently issued a second assessment order alleging that EXL Inc. has a permanent establishment in India and demanding the payment of additional taxes in the amount of 146,655,473 Indian rupees (approximately $3.2 million at the exchange rate in effect on June 30, 2006). If EXL Inc. were found to have a permanent establishment in India, it would be required to pay Indian taxes on the income deemed attributed to such permanent establishment not only for the 2003-04 tax year but for subsequent years as well.

The Indian tax authorities also initiated proceedings seeking to levy certain penalties in connection with these two assessments.

We are contesting both of these assessments and have filed appeals with the appropriate Indian tax authorities. We have been required to pay a portion of the first assessment before exhausting all our available opportunities to appeal this assessment, and we may be required to pay additional amounts with respect to the first and second assessment. Any amount paid by us will be refunded to us if we succeed in our appeals. We cannot assure you that our appeals will be successful.

In addition, the Indian tax authorities are conducting an audit of our 2004-05 tax year. While no assessments have yet been made in connection with the 2004-05 audit, there can be no assurance that we will not receive additional assessments or be required to pay significant additional taxes with respect to that tax year, or that the Indian taxing authorities will not pursue audits for other tax years.

Any failure of our appeals or further assessments would reduce our profitability and cash flows.

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 primary operating subsidiaries are incorporated in India, and virtually all of our assets and our professionals are located in India. We intend to continue to develop and expand our offshore facilities in India. In the early 1990s, India experienced significant inflation, low growth in gross domestic product and shortages of foreign currency reserves. The Indian government, however, has exercised and continues to exercise significant influence over many aspects of the Indian economy. India's government has provided significant tax incentives and relaxed certain regulatory restrictions in order to encourage foreign investment in specified sectors of the 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. The Government of India is considering introducing a reservation policy to the private sector in India, pursuant to which all private sector companies operating in India, including our subsidiaries, would be required to reserve a certain percentage of jobs for the economically underprivileged population in the states where such companies are incorporated. If this policy is adopted, our ability to hire employees of our choice may be affected due to restrictions on our pool of potential employees and competition for these professionals.

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

Terrorist attacks and other acts of violence involving India, 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, financial condition and cash flows.

Terrorist attacks and other acts of violence or war, including those involving India, 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, financial condition and cash flows. South Asia has, from time to time, experienced instances of civil unrest and hostilities among neighboring countries, including India, Pakistan and China. In recent years there have been several instances of military confrontations along the Indo-Pakistani border. There continues to be potential for hostilities between India and Pakistan due to recent terrorist activities, troop mobilizations along the border 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.

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. The outbreak in 2003 of Severe Acute Respiratory Syndrome in Asia and the outbreak of avian influenza, or bird flu, across Asia and

Europe, including recent outbreaks in parts of India, have adversely affected a number of countries and companies. Although we have not been adversely impacted by these recent outbreaks, we can give no assurance that a future outbreak of an infectious disease among humans or animals or any other serious public health concerns will not have a material adverse effect on our business.

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

India is susceptible to natural disasters, including typhoons, tsunamis, floods and earthquakes. Substantially all of our facilities and employees are located in India. If our facilities are damaged by a typhoon, tsunami, flood, earthquake or other natural disaster, our operations and our ability to provide services to our clients could be interrupted or delayed significantly. Our insurance coverage may not be sufficient to cover all of our potential losses. In addition, although all six 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 could have a material adverse effect on our business, results of operation, financial condition and cash flows.

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

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

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

Although substantially all of our revenues are denominated in pounds sterling (51.8% in 2005, or 40.4% on a pro forma basis) or U.S. dollars (48.2% in 2005, or 59.6% on a pro forma basis), most of our expenses (78.9% in 2005, or 64.5% on a pro forma basis) are incurred and paid in Indian rupees. We report our financial results in U.S. dollars. The exchange rates among the Indian rupee, the pound sterling and the U.S. dollar have changed substantially in recent years and may fluctuate substantially in the future. The average Indian rupee/U.S. dollar exchange rate in 2005 was approximately 44.0 (based on the noon buying rate in the City of New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York), representing depreciation of 2.9% compared to the average exchange rate for 2004. The average Indian rupee/pound sterling exchange rate in 2005 was approximately 80.2 (based on the Bloomberg Composite Rate), representing depreciation of 3.4% compared to the average exchange rate in 2004. The average U.S. dollar/pound sterling exchange rate remained stable from 2004 to 2005. 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 pound sterling or the U.S. dollar, the pound sterling depreciates against the U.S. dollar or our hedging strategy is unsuccessful.

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

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

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

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

Section 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.

In addition, the party seeking to enforce in India a judgment obtained in the United States would also be required to obtain approval from the Reserve Bank of India under the Foreign Exchange Management Act, 1999 to execute such a judgment or to repatriate any money recovered in an Indian court.

Risks Related to this Offering

Because the initial public offering price per common share is substantially higher than our book value per common share, purchasers in this offering will immediately experience a substantial dilution in net tangible book value.

Purchasers of our common stock will experience immediate and substantial dilution in net tangible book value per share from the initial public offering price per share. After giving effect to the Share Conversion and the Inductis Acquisition, the sale of the shares of common stock we have offered hereby, and after deducting underwriting discounts and commissions and estimated offering expenses payable by us, and the application of the net proceeds therefrom, our pro forma as adjusted net tangible book value as of June 30, 2006, would have been $ million, or $ per share of common stock. This represents an immediate dilution in pro forma net tangible book value of $ per share to new investors purchasing shares of our common stock in this offering. A calculation of the dilution purchasers will incur is provided under “Dilution.”

Substantial future sales of shares of our common stock in the public market could cause our stock price to fall.

Upon consummation of this offering, we will have outstanding shares of common stock. Of these shares, the shares of common stock offered hereby will be freely tradable without restriction in the public market, unless purchased by our affiliates. Upon completion of this offering, our existing stockholders will beneficially own shares of our common stock, which will represent approximately % of our outstanding common stock (approximately % if the underwriters exercise their option in full). In addition, we could issue up to 389,906 additional shares of our Series A common stock (shares of our common stock after giving effect to the Share Conversion) under the earnout payment provisions relating to the Inductis Acquisition. Based on satisfaction of agreed upon financial performance goals in 2007, we also agreed to make certain additional contingent payments to former holders of Inductis securities in a mix of cash and additional shares of our common stock, the mix of which cannot be determined until the size of the contingent payments, if any, is determined. The value of any such contingent payment will range from $0.6 million to $6.5 million. Immediately following the consummation of this offering, the holders of approximately shares of common stock will be entitled to dispose of their shares pursuant to the volume and other restrictions of Rule 144 under the Securities Act and the holders of approximately shares of common stock, representing approximately % of our outstanding common stock, will be entitled to dispose of their shares following the expiration of an initial 180-day “lock-up” period pursuant to the volume and other restrictions of Rule 144. The underwriters are entitled to waive these lock-up provisions at their discretion prior to the expiration dates of such lock-up agreements.

In connection with this offering, we intend to enter into a registration rights agreement with Oak Hill Capital Partners L.P., FTVentures, Vikram Talwar, Rohit Kapoor and certain of their respective affiliates. We have also agreed to provide registration rights to Norwich Union, TCV V, L.P., TCV V Member Fund and Prudential Financial. Pursuant to these agreements, these holders will have the right, subject to some conditions, to require us to file registration statements covering shares of our common stock (including shares issuable upon the exercise of outstanding options) which they will own upon consummation of this offering or to include those shares in registration statements that we may file for ourselves or other stockholders. Following their registration and sale under the applicable registration statement, those shares will become freely tradeable. By exercising their registration rights and selling a large number of shares, these holders could cause the price of our common stock to decline. In addition, options to purchase shares of common stock will be outstanding upon consummation of this offering. Following this offering, we intend to file a registration statement under the Securities Act registering shares of our common stock reserved for issuance under our equity incentive plans and shares held for resale by our existing stockholders that were previously issued under our equity incentive plans.

We do not intend to pay dividends in the foreseeable future.

We have never declared or paid any cash dividends on our common stock. For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock.

Delaware law and our amended and restated certificate of incorporation and by-laws will contain certain anti-takeover provisions that could delay or discourage business combinations and takeover attempts that stockholders may consider favorable.

Our amended and restated certificate of incorporation and by-laws, which we intend to adopt prior to the completion of this offering, will contain provisions that may make it more difficult, expensive or otherwise discourage a tender offer or a change in control or takeover attempt by a third-party that is opposed by our board of directors. These provisions will include classified board provisions, provisions permitting the board of directors to fill vacancies created by its expansion, provisions permitting the removal of directors only for cause and with a 66 $^{2}/_{3}$% stockholder vote, provisions requiring a 66 $^{2}/_{3}$% stockholder vote for certain amendments to our organizational documents, provisions barring stockholders from calling a special meeting of stockholders or requiring one to be called or from taking action by written consent and provisions that set forth advance notice procedures for stockholders' nominations of directors and proposals for consideration at meetings of stockholders. These provisions may have the effect of delaying or preventing a change of control or changes in management that stockholders consider favorable. Additionally, because we are incorporated in Delaware, we are subject to Section 203 of the Delaware General Corporation Law. Section 203 may prohibit large stockholders, in particular those owning 15.0% or more of our outstanding voting stock, from merging or combining with us. These provisions of our amended and restated certificate of incorporation, by-laws and Delaware law could discourage potential takeover attempts and reduce the price that investors might be willing to pay for shares of our common stock in the future which could reduce the market price of our stock.

The stock price may be volatile, and you may be unable to resell your shares at or above the offering price or at all.

Prior to this offering, there has been no public market for our common stock, and an active trading market may not develop or be sustained upon the completion of this offering. The initial public offering price of the common stock offered hereby was determined through our negotiations with the underwriters and may not be indicative of the market price of the common stock after this offering. The market price of our common stock after this offering will be subject to significant fluctuations in response to, among other factors, variations in our operating results, market conditions specific to the BPO services industry and developments relating to India.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. You should not place undue reliance on those statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as “may,” “will,” “should,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate” or similar expressions. These statements are based on assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this prospectus, 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;
- our ability to attract and retain clients;
- our ability to hire and retain enough sufficiently trained employees to support our operations;
- our ability to grow our business or effectively manage growth;
- increasing competition in the BPO industry;
- telecommunications or technology disruptions;
- fluctuations in exchange rates between pounds sterling, U.S. dollars and Indian rupees;
- negative public reaction in the United States or elsewhere to offshore outsourcing;
- regulatory, legislative and judicial developments;
- technological innovation;
- political or economic instability in India;
- worldwide political, economic and business conditions; and
- our ability to successfully consummate or integrate strategic acquisitions, including the Inductis Acquisition.

These and other factors are more fully discussed in the “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections and elsewhere in this prospectus. These risks could cause actual results to differ materially from those implied by forward-looking statements in this prospectus.

All information contained in this prospectus is materially accurate and complete as of the date of this prospectus. You should keep in mind, however, that any forward-looking statement made by us in this prospectus, 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 prospectus after the date of this prospectus, except as required by federal securities laws. In light of these risks and uncertainties, you should keep in mind that any event described in a forward-looking statement made in this prospectus or elsewhere might not occur.

USE OF PROCEEDS

We estimate that our net proceeds from this offering will be approximately $ million, at an assumed public offering price of $ per share (the midpoint of the range set forth on the cover page of this prospectus), after deducting the underwriting discount and commission and estimated offering expenses of approximately $ million.

We intend to use the proceeds from this offering:

- to repurchase or redeem all outstanding shares of Series A preferred stock, the aggregate principal amount of which was $4.5 million plus accrued dividends of $2.0 million at June 30, 2006;
- to repay all outstanding senior promissory notes payable to stockholders, the aggregate principal amount of which was $4.9 million plus accrued interest of $0.8 million at June 30, 2006; and
- for working capital and general corporate purposes.

The Series A preferred stock is held by, and the senior promissory notes are payable to, certain of our directors, officers and significant stockholders. See "Certain Relationships and Related Transactions—Stock and Note Purchase Agreement."

The senior promissory notes to be repaid mature on December 13, 2007. The interest on $4.6 million in aggregate principal amount of the notes accrues every six months from December 13, 2002 through maturity and the interest on $0.3 million in aggregate principal amount of the notes accrues every six months from December 13, 2003 through maturity, in each case, at a rate equal to the greater of 2.02% per semi-annum or LIBOR and must be paid on December 13, 2007 or on the day of any prepayment.

We have broad discretion as to the application of these proceeds. Prior to application, we may hold any net proceeds in cash or invest them in short-term securities. You will not have an opportunity to evaluate the economic, financial or other information on which we base our decisions regarding the use of these proceeds.

DIVIDEND POLICY

We have never declared or paid any dividends on our common stock. For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of our board of directors and will be dependent upon then existing conditions, including our financial condition and results of operations, capital requirements, contractual restrictions, business prospects and other factors that our board of directors considers relevant.

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CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2006:

- on an actual basis;
- on a pro forma basis, to give effect to the Inductis Acquisition; and
- on a pro forma as-adjusted basis, to give effect to:
  - the Inductis Acquisition;
  - the sale of shares of our common stock in this offering at an assumed public offering price of $ per share (the midpoint of the range set forth on the cover page of this prospectus), after deducting the underwriting discount and the estimated offering expenses;
  - the application of the net proceeds of this offering as described under "Use of Proceeds;" and
  - the Share Conversion as described under "Certain Relationships and Related Transactions—Transactions Entered Into in Connection with this Offering—Share Conversion."

	As of June 30, 2006		
	Actual	Pro Forma	Pro Forma As Adjusted
	(dollars in millions)		
Cash and cash equivalents	$ 24.3	$ 23.3	$
Short-term and long-term debt(1):			
Revolving lines of credit	—	2.5	2.5
Term loan	—	1.8	1.8
Total short-term and long-term debt	—	4.3	4.3
Senior promissory notes payable to stockholders	$ 5.7	$ 5.7	$ —
Series A preferred stock, par value $.001 per share; 45,833.36 shares authorized (pro forma, 45,833.36 shares authorized and, pro forma as adjusted, no shares authorized); 45,304 shares issued and outstanding (pro forma, 45,304 shares issued and outstanding and, pro forma as adjusted, no shares issued and outstanding)	6.5	6.5	—
Stockholders' equity (deficit):			
Series A common stock, par value $.001 per share, 11,122,702 shares authorized (pro forma 11,122,702 shares authorized and, pro forma as adjusted, no shares authorized); 10,081,778 shares issued and outstanding (pro forma, 10,617,696 shares issued and outstanding and, pro forma as adjusted, no shares issued and outstanding)	—	—	—
Series B non-voting common stock, par value $.001 per share, 1,659,230 shares authorized (pro forma, 1,659,230 shares authorized and, pro forma as adjusted, no shares authorized); 617,240 shares issued and outstanding (pro forma, 617,240 shares issued and outstanding and, pro forma as adjusted, no shares issued and outstanding)	—	—	—
Common stock, par value $.001 per share, no authorized shares (pro forma, no authorized shares and, pro forma as adjusted, shares authorized); no shares issued and outstanding (pro forma, no shares issued and outstanding and, pro forma as adjusted, shares issued and outstanding) (2)	—	—	
Additional paid-in capital	17.3	26.6	
Deferred stock based compensation	—	—	—
Retained earnings	18.6	18.6	
Accumulated other comprehensive loss	(1.6)	(1.6)	(1.6)
Treasury stock	—	—	—
Total stockholders' equity	34.3	43.6	
Total capitalization	$46.5	$ 60.1	$

(1) In connection with the Inductis Acquisition, we assumed the obligations of Inductis under existing lines of credit, a term loan and other debt.

(2) Does not include options to purchase an aggregate of shares of common stock that are outstanding under our equity incentive plans or otherwise or that are to be granted effective upon consummation of this offering under our equity incentive plans or shares of common stock that may be issued pursuant to the earnout and contingent payment provisions of the Inductis Acquisition.

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DILUTION

If you invest in our common stock, you will be diluted to the extent the initial public offering price per share of our common stock exceeds the net tangible book value per share of our common stock immediately after this offering.

Our pro forma net tangible book value as of June 30, 2006 was approximately $ million, or $ per share of common stock (after giving effect to the Share Conversion and the Inductis Acquisition). The net tangible book value per share represents the amount of our net worth, or total tangible assets less total liabilities, divided by shares of our common stock outstanding as of that date (after giving effect to the Share Conversion and the Inductis Acquisition).

After giving effect to the Share Conversion and the Inductis Acquisition, the issuance and sale of shares of our common stock in this offering and our receipt of approximately $ million in net proceeds from such sale, based on an assumed public offering price of $ per share (the midpoint of the range set forth on the cover page of this prospectus), and after deducting the underwriting discount and commission and the estimated expenses of the offering, our pro forma as adjusted net tangible book value per share as of June 30, 2006 would have been approximately $ million, or $ per share. This amount represents an immediate increase in pro forma net tangible book value of $ to existing stockholders and an immediate dilution in pro forma net tangible book value of $ per share to new investors purchasing shares of our common stock in this offering. Dilution per share is determined by subtracting the pro forma net tangible book value per share as adjusted for this offering from the amount of cash paid by a new investor for a share of our common stock. The following table illustrates the per share dilution:

Initial public offering price per share		$
Pro forma net tangible book value per share as of June 30, 2006 (adjusted for the Share Conversion and the Inductis Acquisition but excluding this offering)	$	
Increase in net tangible book value per share attributable to new investors	$	
Pro forma as adjusted net tangible book value per share after this offering		$
Dilution per share to new investors		$

The following table summarizes as of June 30, 2006, after giving effect to the Share Conversion, the Inductis Acquisition and this offering as described above:

- the total number of shares of common stock purchased from us;
- the total consideration paid to us before deducting underwriting discounts and commissions of $ and estimated offering expenses of approximately $; and
- the average price per share paid by existing stockholders and by new investors who purchase shares of common stock in this offering at the assumed initial public offering price of $ per share.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders		%	$	%	$
New investors					
Total		100.0%	$	100.0%	$

The foregoing tables do not include options to purchase an aggregate of shares of common stock that are outstanding under our equity incentive plans or otherwise or that are to be granted effective upon the consummation of this offering under our equity incentive plans or shares of our common stock that could be issued pursuant to the earnout and contingent payment provisions of the Inductis Acquisition. See “Management—Equity Incentive Plans.”

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The table below presents our selected historical consolidated financial and other data for:

- the following successor periods:
  - the six months ended June 30, 2006;
  - the six months ended June 30, 2005;
  - the years ended December 31, 2005, 2004 and 2003;
  - the period from November 15, 2002 to December 31, 2002;
- the following predecessor periods:
  - the period from January 1, 2002 to November 14, 2002;
  - the period from August 1, 2001 to December 31, 2001; and
- the pre-predecessor period from April 1, 2001 to July 31, 2001.

The selected balance sheet data as of December 31, 2005, 2004, 2003 and 2002, and the selected statement of operations data for the years ended 2005, 2004 and 2003, the period from November 15 to December 31, 2002, the period from January 1 to November 14, 2002, the period from August 1 to December 31, 2001 and the period from April 1 to July 31, 2001 were derived from our consolidated financial statements that have been audited by Ernst & Young LLP, our independent registered public accounting firm. The balance sheet data as of June 30, 2006, June 30, 2005 and December 31, 2001 and the income statement data for the six months ended June 30, 2006 and 2005 were derived from our unaudited consolidated financial statements for these periods which include all adjustments consisting of normal recurring adjustments that management considers necessary for a fair presentation of the financial position and results of operations for these periods. The results for any interim period are not necessarily indicative of the results that may be expected for the full year.

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The information set forth below should be read in conjunction with “Capitalization,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this prospectus.

	Successor						Predecessor		Pre Predecessor
	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003	Period from November 15 to December 31, 2002	Period from January 1 to November 14, 2002	Period from August 1 to December 31, 2001	Period from April 1 to July 31, 2001
	(unaudited)	(unaudited)							
	(in millions, except share and per share data)								
Statement of Operations Data:									
Revenues(1)	$ 46.8	$ 35.6	$ 74.0	$ 60.5	$ 27.8	$ 3.3	$ 23.8	$ 8.7	$ 3.2
Cost of revenues(2)	29.9	23.7	47.6	38.7	18.4	1.3	11.7	4.6	2.2
Gross profit	16.9	11.9	26.4	21.8	9.4	2.0	12.1	4.1	1.0
Operating expenses:									
General and administrative expenses(3)	7.3	6.0	13.2	11.1	7.9	3.0	8.8	2.7	2.2
Selling and marketing expenses(3)	1.5	0.8	1.7	1.5	1.1	—	0.6	0.3	—
Depreciation and amortization	3.6	3.0	5.9	3.9	0.4	—	3.9	1.0	0.4
Total operating expenses	12.4	9.8	20.8	16.5	9.4	3.0	13.3	4.0	2.6
Income (loss) from operations	4.5	2.1	5.6	5.3	—	(1.0)	(1.2)	0.1	(1.6)
Other income (expense):									
Foreign exchange gain (loss)	(0.7)	1.1	0.9	0.8	0.4	0.1	—	(0.1)	—
Interest and other income	0.6	0.2	0.7	0.2	0.2	—	—	—	—
Interest expense	(0.2)	(0.2)	(0.4)	(0.3)	(0.3)	—	—	—	—
Interest expense—redeemable preferred stock	—	(0.3)	(0.4)	(0.6)	(0.3)	—	—	—	—
Goodwill impairment(4)	—	—	—	—	—	—	(46.0)	—	—
Income (loss) before income taxes and extraordinary item	4.2	2.9	6.4	5.4	—	(0.9)	(47.2)	—	(1.6)
Income tax (benefit) provision	0.5	0.2	(0.6)	—	0.8	—	0.1	—	—
Income (loss) before extraordinary gain	3.7	2.7	7.0	5.4	(0.8)	(0.9)	(47.3)	—	(1.6)
Extraordinary gain	—	—	—	—	—	5.0	—	—	—
Net income (loss)	3.7	2.7	7.0	5.4	(0.8)	4.1	(47.3)	—	(1.6)
Dividends and accretion on preferred stock	(0.3)	—	(0.2)	—	(0.2)	(0.1)	—	—	—
Net income (loss) to common stockholders	$ 3.4	$ 2.7	$ 6.8	$ 5.4	$ (1.0)	$ 4.0	$ (47.3)	$ —	$ (1.6)
Basic and diluted earnings (loss) per share to common stockholders:									
Basic	$ 0.32	$ 0.25	$ 0.64	$ 0.52	$ (0.10)	$ 0.43	$ (4.95)	$ —	$ (0.16)
Diluted	$ 0.31	$ 0.25	$ 0.63	$ 0.51	$ (0.10)	$ 0.43	$ (4.95)	$ —	$ (0.16)
Weighted average number of shares used in computing earnings per share:									
Basic	10,608,813	10,573,977	10,587,274	10,259,166	9,784,420	9,555,462	9,555,462	9,555,462	9,555,462
Diluted	10,714,911	10,729,467	10,795,514	10,508,626	9,784,420	9,555,462	9,555,462	9,555,462	9,555,462

	At June 30, 2006	At June 30, 2005	At December 31, 2005	At December 31, 2004	At December 31, 2003	At December 31, 2002	At December 31, 2001
	(unaudited)	(unaudited)					(unaudited)
				(in millions)			
Balance Sheet Data:							
Cash and cash equivalents	$ 24.3	$ 21.2	$ 24.2	$ 18.8	$ 8.6	$ 15.7	$ 2.5
Working capital(5)	29.6	22.1	23.3	18.4	8.4	13.7	(5.6)
Total assets	68.0	52.1	62.6	50.4	22.3	20.3	65.1
Total debt	5.7	5.5	5.6	5.4	5.2	4.7	—
Series A preferred stock (liquidation preference)	6.5	5.9	6.2	5.6	5.1	4.3	—
Stockholders' equity	34.3	27.7	30.9	24.8	4.9	6.2	51.8

(1) In accordance with GAAP, we include the amount of telecommunications and travel-related costs that are billed to and reimbursed by our clients in our revenues. Revenues include reimbursable expenses of $2.0 million for the six months ended June 30, 2006, $1.6 million for the six months ended June 30, 2005, $3.4 million in 2005, $4.2 million in 2004, $0.6 million in 2003, $2,470 for the period from November 15 to December 31, 2002, $69,096 for the period from January 1 to November 14, 2002, $56,838 for the period from August 1 to December 31, 2001, and $0 for the period from April 1 to July 31, 2001.

(2) Cost of revenues includes non-cash amortization of deferred stock compensation expense relating to our issuance of stock options to employees directly involved in providing services to our clients. Cost of revenues excludes depreciation and amortization related to fixed assets.

(3) SG&A expenses include non-cash amortization of deferred stock compensation expense relating to our issuance of stock options to our non-operations staff.

(4) Impairment of goodwill in connection with the 2001 Acquisition recognized by our predecessor.

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

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma consolidated financial information should be read in conjunction with the historical financial statements of ExlService Holdings and Inductis and the related notes thereto, which are included elsewhere in this prospectus. The following unaudited pro forma consolidated financial information has been prepared by our management and is based on (a) the historical financial statements of ExlService Holdings and Inductis and (b) the assumptions and adjustments described below.

The unaudited pro forma consolidated statement of operations data for the year ended December 31, 2005 and the six months ended June 30, 2006 give effect to the Inductis Acquisition as if it had occurred at the beginning of the respective periods, and the unaudited pro forma consolidated balance sheet data at June 30, 2006 give effect to the Inductis Acquisition as if it had occurred on June 30, 2006.

We have included all adjustments, consisting of normal recurring adjustments, which in the opinion of management, are necessary for a fair presentation of the data. We based the pro forma adjustments on available information and on assumptions that we believe are reasonable under the circumstances. See “Notes to Unaudited Pro Forma Consolidated Statement of Operations” for a discussion of assumptions made. The unaudited pro forma consolidated financial statements are presented for informational purposes and are based on management’s estimates. The unaudited pro forma consolidated financial statements do not purport to represent what our results of operations or financial position actually would have been if the transactions set forth above had occurred on the dates indicated or what our results of operations or financial position will be for future periods.

On July 1, 2006, we completed the Inductis Acquisition under an Agreement and Plan of Merger, dated June 30, 2006, among us, our wholly-owned merger subsidiary, Inductis, Sandeep Tyagi and certain former major stockholders of Inductis. We estimate that the total consideration for this acquisition, including the assumption of liabilities, working capital adjustment, earnout and contingent payments and transaction costs is approximately $31.9 million. We paid approximately $13.0 million at the closing of the Inductis Acquisition in the form of $2.4 million in cash, the issuance of 535,918 shares of our Series A common stock (shares of our common stock after giving effect to the Share Conversion), $0.9 million in transaction costs and a $0.4 million bonus payable in January 2007. We assumed $4.3 million of Inductis debt. We are obligated to make an additional approximately $0.5 million working capital adjustment payment based on the net working capital of Inductis and its subsidiaries as of June 30, 2006. We also agreed to make certain earnout payments to the former holders of Inductis securities of up to 389,906 shares of Series A common stock (shares of our common stock after giving effect to the Share Conversion) based on the satisfaction of certain agreed-upon financial performance goals for the historic Inductis business in 2006 and 2007 and certain additional contingent payments in a mix of cash and additional shares of our common stock, the mix of which cannot be determined until the size of the contingent payments, if any, is determined, based on the satisfaction of certain agreed-upon financial performance goals for the historic Inductis business in 2007. See “The Inductis Acquisition” for a more detailed discussion of the terms of the Inductis Acquisition.

ExlService Holdings, Inc. & Subsidiaries

Unaudited Pro Forma Consolidated Statement of Operations Data
Fiscal Year ended December 31, 2005

	ExlService Holdings Inc.	Inductis, Inc.	Pro Forma Adjustments	Pro Forma Consolidated
	(in millions, except share and per share data)			
Statement of Operations Data:				
Revenues	$ 74.0	$ 20.9	$ —	$ 94.9
Cost of revenues(a)	47.6	10.2	0.6	58.4
Gross profit	26.4	10.7	(0.6)	36.5
Operating expenses:				
General and administrative expenses	13.2	5.1	—	18.3
Selling and marketing expenses	1.7	0.8	—	2.5
Depreciation and amortization	5.9	0.5	—	6.4
Amortization of intangibles(b)	—	—	2.5	2.5
Impairment of loan receivable	—	2.8	—	2.8
Total operating expenses	20.8	9.2	2.5	32.5
Income (loss) from operations	5.6	1.5	(3.1)	4.0
Other income (expense):				
Foreign exchange gain (loss)	0.9	—	—	0.9
Interest and other income	0.7	0.2	—	0.9
Interest and other expense	(0.4)	(0.4)	—	(0.8)
Interest expense—redeemable preferred stock	(0.4)	—	—	(0.4)
Income (loss) before income taxes	6.4	1.3	(3.1)	4.6
Income tax (benefit) provision(c)	(0.6)	(0.6)	0.8	(0.4)
Net income	7.0	1.9	(3.9)	5.0
Dividends and accretion on preferred stock	(0.2)	—	—	(0.2)
Net income to common stockholders	$ 6.8	$ 1.9	$ (3.9)	$ 4.8
Basic and diluted earnings per share to common stockholders:				
Basic	$ 0.64			$ 0.43
Diluted	$ 0.63			$ 0.42
Weighted average number of shares used in computing earnings per share:				
Basic(d)	10,587,274			11,123,192
Diluted(d)	10,795,514			11,331,432

See accompanying notes to unaudited pro forma consolidated financial information

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ExlService Holdings, Inc. & Subsidiaries

Unaudited Pro Forma Consolidated Statement of Operations Data
Six Months ended June 30, 2006

	ExlService Holdings, Inc.	Inductis, Inc.	Pro Forma Adjustments	Pro Forma Consolidated
	(in millions, except share and per share data)			
Statement of Operations Data:				
Revenues	$ 46.8	$ 13.6	$ —	$ 60.4
Cost of revenues(a)	29.9	8.1	0.3	38.3
Gross profit	16.9	5.5	(0.3)	22.1
Operating expenses:				
General and administrative expenses	7.3	4.7	—	12.0
Selling and marketing expenses	1.5	0.9	—	2.4
Depreciation and amortization	3.6	0.3	—	3.9
Amortization of intangibles(b)	—	—	1.2	1.2
Impairment of loan receivable	—	0.3	—	0.3
Total operating expenses	12.4	6.2	1.2	19.8
Income (loss) from operations	4.5	(0.7)	(1.5)	2.3
Other income (expense):				
Foreign exchange gain (loss)	(0.7)	—	—	(0.7)
Interest and other income	0.6	0.1	—	0.7
Interest and other expense	(0.2)	(0.2)	—	(0.4)
Income (loss) before income taxes	4.2	(0.8)	(1.5)	1.9
Income tax (benefit) provision(c)	0.5	(0.2)	—	0.3
Net income (loss)	3.7	(0.6)	(1.5)	1.6
Dividends and accretion on preferred stock	(0.3)	—	—	(0.3)
Net income (loss) to common stockholders	$ 3.4	$ (0.6)	$ (1.5)	$ 1.3
Basic and diluted earnings (loss) per share to common stockholders:				
Basic	$ 0.32			$ 0.11
Diluted	$ 0.31			$ 0.11
Weighted average number of shares used in computing earnings per share:				
Basic(d)	10,608,813			11,144,731
Diluted(d)	10,714,911			11,250,829

See accompanying notes to unaudited pro forma consolidated financial information

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ExlService Holdings, Inc. & Subsidiaries

Unaudited Pro Forma Consolidated Balance Sheet Data
At June 30, 2006

	ExlService Holdings, Inc.	Inductis, Inc.	Pro Forma Adjustments	Pro Forma Consolidated
		(in millions)		
Balance Sheet Data:				
Cash and cash equivalents (e)	$ 24.3	$ 1.4	$ (2.4)	$ 23.3
Accounts receivable	21.6	7.2	—	29.0
Other current assets	5.0	3.8	(2.1)	6.7
Goodwill and other intangible assets (f)	—	—	11.1	11.1
Fixed assets, net	14.2	1.5	—	15.7
Total assets (f)	68.0	14.0	6.6	88.6
Other accrued expenses (g)	8.5	1.0	1.3	10.8
Other current liabilities	12.8	5.5	(0.8)	17.5
Total debt	5.7	4.3	—	10.0
Series A preferred stock (liquidation preference)	6.5	—	—	6.5
Additional paid-in capital	17.3	2.7	6.6	26.6
Retained earnings	18.6	1.0	(1.0)	18.6
Stockholders' equity	34.3	3.1	6.2	43.6

See accompanying notes to unaudited pro forma consolidated financial information

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

1. Acquisition and Basis of Presentation

On July 1, 2006, ExlService Holdings acquired the entire share capital of Inductis and paid approximately $13.0 million, including $0.9 million of transaction costs. The preliminary purchase price is calculated as follows (in millions):

Cash	$ 2.8
Shares	9.3
Transaction costs	0.9
Total preliminary purchase price	$13.0

Of the cash consideration, approximately $0.4 million will be paid as a bonus in January 2007. 535,918 shares of our Series A common stock (shares of our common stock after giving effect to the Share Conversion) were issued at a fair value of $17.40 per share, the fair value of our Series A common stock at the time of the Inductis Acquisition based on an independent third party valuation of our stock. Expenses included in the transaction costs include legal, accounting and other direct expenses. In addition, as part of our management incentive plan, we granted 85,461 restricted shares of our Series B common stock (shares of our common stock after giving effect to the Share Conversion) to the holders of Inductis securities that vest based on service- and performance-based requirements. Due to the service requirements, the value of this restricted stock is not considered part of the purchase price of the Inductis Acquisition but will be reflected in ongoing compensation expense. See (a) in Note 2, “Pro Forma Adjustments,” below.

Under purchase accounting, the purchase price has been preliminarily allocated to the net tangible assets and identifiable intangible assets based on their estimated fair value at the date of acquisition. As part of our process we engaged an independent third party valuation provider to perform a valuation analysis to determine the fair values of certain identifiable intangible assets of Inductis as of the valuation date. This analysis was used as the basis for the preliminary allocation of the purchase price among the acquired identifiable intangible assets of Inductis. As part of the valuation process, the income approach was used to determine the fair value of the assets, the cost approach was used to determine the fair value of the workforce and a market approach was used to determine the fair value of the trademarks. The excess of the purchase price over the net tangible and identifiable intangible assets has been recorded to goodwill. Identifiable intangible assets include client contracts, trademarks and non-compete agreements as detailed in the following purchase price allocation (in millions):

Goodwill	$ 7.8
Non-compete agreements (1 year useful life)	1.5
Customer contracts (2 year average useful life)	1.5
Trademarks (1.5 year useful life)	0.3
Net assets acquired and liabilities assumed	1.9
Total preliminary purchase price allocation	$13.0

2. Pro Forma Adjustments

(a) In the Inductis Acquisition, holders of vested and unvested shares of common stock of Inductis were granted restricted shares of our Series B common stock which vest over two to three years and some of which are tied to operational performance of the Inductis historic business. The pro forma adjustment reflects the compensation expense related to the grant of such shares of restricted stock.

(b) Reflects the amortization of identifiable intangibles.

(c) Reflects an adjustment to income tax expense based on ExlService Holdings’ effective tax rate during the periods presented. For the six month period ended June 30, 2006, the adjustment to income tax expense is less than $0.1 million but is reflected in the pro forma consolidated amount.

(d) Basic and diluted shares include the 535,918 shares of our Series A common stock (shares of our common stock after giving effect to the Share Conversion) issued as part of the Inductis Acquisition.

(e) Reflects cash of $2.4 million paid at closing.

(f) The net increase in total assets is comprised of the following adjustments (in millions):

Addition:	Goodwill	$ 7.8
Addition:	Identifiable Intangibles	3.3
Less:	Cash paid at Closing	(2.4)
Less:	Deferred tax assets	(2.1)
		6.6

(g) Reflects the accrual of $0.9 million of transaction costs related to the Inductis Acquisition and $0.4 million related to a cash payment to be paid as a bonus in January 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with "Selected Consolidated Financial and Other Data" and our consolidated financial statements and the related notes included elsewhere in this prospectus. Some of the statements in the following discussion are forward-looking statements. See "Forward-Looking Statements."

Overview

We are a recognized provider of offshore BPO services, primarily serving the needs of Global 1000 companies in the BFSI sector. We provide a broad range of outsourcing services, including BPO services, research and analytics services and advisory services. We provide integrated front-, middle- and back-office process outsourcing services and manage large-scale processes for our U.S.-based and U.K.-based clients. We also offer various research and analytics services and advisory services to our clients. 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 market our services directly through our sales and marketing team, which operates out of New York and London, and our business development team, which operates out of Noida, India. We currently operate six operations facilities in India and anticipate opening an offshore BPO operation outside of India by March 2007.

Revenues

We generate revenues principally from contracts to provide BPO or advisory services. In the first six months of 2006, we had revenues of $46.8 million compared to $35.6 million for the same period in 2005, an increase of 31.5%. In 2005, we had revenues of $74.0 million compared to $60.5 million in 2004, an increase of 22.3%. Prior to 2003, our revenues were generated principally from Conseco. We attribute our revenue growth to a number of factors, including the growth of our client base, the increase in the size, number and complexity of projects for our clients, and the addition of new services, including compliance and risk advisory services and research and analytics services. Our revenue growth over the three-year period is driven by a combination of new clients, ongoing growth in existing client relationships as well as the inclusion of full-year revenues from clients added in the preceding year. We measure our revenues from new clients as revenues attributable to new clients added and not as an increase in revenues from existing clients. We anticipate continued revenue growth as we expand our service offerings, both organically and through acquisitions such as the Inductis Acquisition. Revenues from new clients are an indicator of successful marketing efforts and do not represent a trend in our results of operations.

We provide our clients with a range of BPO services, including insurance services, banking and financial 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 BPO service, implement a process migration to that operations center and then provide services either to that client or directly to that client's customers. Each client contract has different terms based on the scope, deliverables and complexity of the engagement. The BPO services we provide to 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 BPO services, we enter into long-term agreements with our clients with initial terms ranging from three to seven years. Although these agreements provide us with a relatively predictable revenue base for a substantial portion of our business, the long selling cycle for our BPO 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 research and analytics services are intended to facilitate more effective data-based strategic and operating decisions by our clients using statistical and quantitative analytical techniques. We materially expanded our research and analytics capabilities and enhanced the strategic dimension of our services with the recent acquisition of Inductis in July 2006. Our advisory services include risk assessment, documentation and internal controls testing and business process re-engineering and process quality monitoring.

We serve clients mainly in the United States and the United Kingdom, with these two regions generating approximately 59.6% and approximately 40.4% of our pro forma revenues, respectively, in 2005. See "—Foreign Exchange—Exchange Rates."

We provide services to Norwich Union, which represented $36.4 million, or 38.3%, of our pro forma revenues in 2005, under two framework agreements and work orders generated by these agreements. The first framework agreement expires in January 2007 and can be terminated by our client for cause only during its initial term, but work orders under that agreement cannot be terminated without cause before July 1, 2007. The second framework agreement expires in July 2009 and can be terminated by our client without cause upon six months prior notice and payment to us of a break-up fee during its initial term. After these initial terms, Norwich Union may terminate these agreements without cause or penalty with six months notice. Our contract with our second-largest client, American Express, represented 12.6% of our pro forma revenues in 2005 and provides that American Express may terminate the agreement at any time and without cause with five days prior notice. We provide services to Dell (including Dell Financial Services), which represented 11.9% of our pro forma revenues in 2005, under two main agreements. The first agreement expires on November 1, 2006, is automatically renewable for additional one-year terms and can be terminated by our client at any time and without cause with 30 days prior notice. The second agreement does not have a specified initial term and can be terminated at any time and without cause with 90 days prior notice. Contracts representing approximately 3.6% of our pro forma revenues of our BPO business from our other clients in 2005 will expire within 12 months, while the remainder of our BPO contracts expire in more than one year or do not have specified initial terms and remain in effect until terminated or until there are no work orders or engagement schedules. Since we collect revenues on contracts as services are provided, terminated contracts are only subject to collection for portions of the contract completed through the time of termination and payment of applicable penalties. In an effort to avoid early or abrupt contract terminations, we tailor the terms of our contracts according to client needs, review our ability and our clients' ability to perform on a contract, monitor the progress of all contracts and consider any conditions that might lead to a contract termination.

We recognize revenues from services provided under our client contracts on a cost-plus, time-and-materials or unit-price basis. Under cost-plus arrangements, we apply a mark-up (based on the service levels we achieve) to the contractually agreed direct and apportioned indirect costs we incur and invoice the client for the marked-up cost. Time-and-materials arrangements typically involve billings based on productive minutes or hours as we perform the related services. Unit-price arrangements involve billings based on productive units (such as the number of e-mail responses) as we deliver the services to the client. In connection with unit-priced contracts, if we do not estimate the resources and time required for a unit-price project accurately or do not meet our contractual obligations within the required timeframe, we could incur a material adverse effect on our business, results of operations, financial condition and cash flows.

Revenues also include amounts representing reimbursable expenses that are billed to and reimbursed by our clients and typically include telecommunications 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.

Our operating results may vary significantly from period to period as a result of various factors. For example, Dell, one of our largest clients, experiences seasonal changes in its operations in connection with the year-end holiday season and the school year, which affects our period-to-period results.

We also bear the risk of inflation and fluctuations in currency exchange rates with respect to our contracts, and our operating results could be negatively affected by adverse changes in wage inflation rates and foreign currency exchange rates. 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 there is significant fluctuation among the Indian rupee, the pound sterling and the U.S. dollar or if our hedging strategy is unsuccessful. See "—Qualitative and Quantitative Disclosures About Market Risk—Components of Market Risk—Exchange Rate Risk," "—Expenses—Cost of Revenues" and "—Foreign Exchange—Exchange Rates."

We derive a significant portion of our revenues from a limited number of large clients. In 2005, 2004 and 2003, the revenues from our five largest clients grew to $62.1 million, $54.3 million and $27.4 million, respectively, accounting for 83.9%, 89.8% and 98.6% of our revenues, respectively. During the same periods, revenues from our contracts with our two largest historical clients, Norwich Union and Dell (including Dell Financial Services), accounted for 64.3%, 76.5% and 74.1% of our revenues, respectively. Our five largest clients on a pro forma basis generated $73.3 million, or 77.2% of our 2005 pro forma revenues. Revenues from our three largest clients on a pro forma basis, Norwich Union, American Express and Dell (including Dell Financial Services), represented 62.8% of our 2005 pro forma revenues.

As a result of our shift in focus to clients other than Conseco following the 2002 Acquisition and the subsequent bankruptcy of Conseco, commencing in March 2003 our revenues from other clients have increased significantly while revenues from Conseco have decreased significantly. In 2005, revenues from Conseco represented 2.0% of our revenues, compared to 2.5% and 17.6% of our revenues in 2004 and 2003, respectively. We derived revenues from 17, ten and two new clients for our services in 2005, 2004 and 2003, respectively. By acquiring Inductis, we obtained 17 new clients, including American Express, our second largest client on a pro forma basis. Although we are increasing and diversifying our customer base, we expect in the near future that a significant portion of our revenues will continue to be contributed by a limited number of large clients.

Norwich Union has the option from January 2008 through February 2011 under one of its contracts with us to purchase the shares of our subsidiary that operates one of our facilities in Pune, India, by paying us an amount that will approximate the net asset value of that facility on the date of transfer. The exercise of this option would result in both a loss of revenues and the loss of all of our employees who are at that time working under that contract. Norwich Union has recently publicly announced its intention to start exercising its option to assume the operations of the facilities of certain of its third party vendor-contractors, including one of our facilities in Pune. The affected facility generated 18.5% of our pro forma revenues in the six months ended June 30, 2006 and 20.8% of our pro forma revenues in 2005. We expect that any decline in revenues that we would experience when Norwich Union exercises this option would be partially offset by a decrease in expenses associated with the operation of the Pune facilities. For more information, see "Certain Relationships and Related Transactions—Agreements with Norwich Union—Option to Purchase Stock of NCOP" and "Risk Factors—Risks Related To Our Business—Our agreements with our largest client give it the option to assume the operations of one of our facilities, and the exercise of that option could have an adverse effect on our business and results of operations."

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 deferred stock compensation expense; and traveling and lodging costs; and
- costs relating to our facilities and communications network, which include telecommunications and IT costs; facilities and customer management support; operational expenses for our outsourcing centers; and rent expenses.

The most significant component of our cost of revenues is employee compensation, recruitment, training and retention. Salary levels in India, employee turnover rates and our ability to efficiently manage and utilize our employees significantly affect our cost of revenues. 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 BPO 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 deferred stock compensation expense relating to our issuance of stock options to employees directly involved in providing services to our clients.

We expect our cost of revenues to increase as we add additional professionals in India in 2006 to service additional business, in particular as our research and analytics and advisory services businesses grow, both organically and as a result of the Inductis Acquisition, and as wages continue to increase in India. In particular, we expect training activity costs to increase as we add new clients. See "Risk Factors—Risks Related to our Business—Wage increases in India may prevent us from sustaining our competitive advantage and may reduce our profit margin" and "—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."

Cost of revenues is also affected by our long selling cycle and implementation period for our BPO 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 we are engaged by a client in a new contract, our cost of revenues may represent a higher percentage of revenues until the implementation phase for that contract of three to four months is completed. We also expect cost of revenues to increase when we add new operations facilities due to increases in telecommunications and rent expenses and other facilities operating costs. As we increase the size, number and complexity of projects for our clients and broaden our client base and as our business volumes increase, however, we expect to benefit from economies of scale and a more effective utilization of resources, which we expect will decrease our related cost of revenues.

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 personnel, travel and brand building. We expect SG&A expenses to continue to increase in absolute dollars to support our planned growth, including both organic growth and growth through acquisitions like the Inductis Acquisition. We also expect our accounting, insurance and legal fees to increase after the consummation of this offering as a result of being a public company. SG&A expenses also include noncash amortization of deferred stock compensation expense related to our issuance of stock options 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 and intangible assets, including network equipment, cabling, computers, office furniture and equipment, motor vehicles and leasehold improvements. Non-cash amortization of deferred stock compensation expenses are not included in depreciation and amortization, but are included as an element of compensation expenses as described above. As we add clients, we expect that depreciation expense will increase, reflecting additional investments in equipment such as desktop computers, servers and other infrastructure. We expect a significant increase of approximately $2.5 million in amortization expense over the next 12 months as a result of the Inductis Acquisition.

Foreign Exchange

Exchange Rates

Although substantially all of our revenues are denominated in pounds sterling (51.8% in 2005, or 40.4% on a pro forma basis) or U.S. dollars (48.2% in 2005, or 59.6% on a pro forma basis), most of our expenses (78.9% in 2005, or 64.5% on a pro forma basis) are incurred and paid in Indian rupees. The exchange rates among the Indian rupee, the pound sterling and the U.S. dollar have changed substantially in recent years and may fluctuate substantially in the future. The results of our operations are affected as the Indian rupee appreciates or depreciates against the U.S. dollar or the pound sterling. See "—Qualitative and Quantitative Disclosures About Market Risk—Components of Market Risk—Exchange Rate Risk" and "Risk Factors—Risks Related to India and the International Nature of our Business—Currency fluctuations among the Indian rupee, the pound sterling and the U.S. dollar could have a material adverse effect on our results of operations."

In addition, we report our financial results in U.S. dollars and a substantial portion of our revenues is earned in pounds sterling. Accordingly, our results of operations are adversely affected as the pound sterling depreciates against the U.S. dollar. See "—Qualitative and Quantitative Disclosures About Market Risk—Components of Market Risk—Exchange Rate Risk."

Currency Regulation

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

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

Income Taxes

The Indian Finance Act, 2000 provides EXL India and Inductis India with a ten-year holiday from Indian corporate income taxes as an entity exporting IT services from designated software technology parks and export processing zones in India. The Indian Finance Act, 2000 phases out the tax holiday over a ten-year period from fiscal 2000 through fiscal 2009. Accordingly, facilities set up in India on or before March 31, 2000 have a ten-year tax holiday, new facilities set up on or before March 31, 2001 have a nine-year tax holiday and so forth until March 31, 2009. After March 31, 2009, the tax holiday will no longer be available to new facilities. EXL India provides BPO services from its wholly owned, export oriented units situated in Noida and Pune. The income derived from the services rendered from these facilities is not subject to taxes in India until March 31, 2009. Inductis India is located in Gurgaon and its services also qualify under the Indian Finance Act, 2000 until March 31, 2009.

As a result of the tax holiday, our BPO service operations have been subject to relatively lower tax liabilities. For example, we recognized minimal income tax expense in 2005 as a result of the tax holiday, compared to approximately $2.4 million that we would have incurred if the tax holiday had not been available for that period (without accounting for double taxation treaty set-offs). When our tax holiday expires or terminates, our tax expense will materially increase. While we have incurred losses under applicable Indian tax laws, we have decided not to carry forward these losses.

U.S. and Indian transfer-pricing regulations require that any international transaction involving associated enterprises be at an arm's-length price. Transactions among our subsidiaries and us may be considered such transactions. Accordingly, we determine the pricing among our associated enterprises on the basis of detailed functional and economic analysis involving benchmarking against transactions among entities that are not under common control. If the applicable income tax authorities review any of our tax returns and determine that the transfer price we applied was not appropriate, we may incur increased tax liability, including accrued interest and penalties. We are currently involved in disputes with Indian tax authorities over the application of some of our transfer pricing policies. See "Business—Legal Proceedings."

ExlService Holdings is subject to U.S. income taxes on the profits it recognizes in the United States.

Acquisition History

2002 Acquisition

Our pre-predecessor, EXL Inc., was formed on April 9, 1999 and began commercial operations in October 2000. On July 31, 2001, EXL Inc. was acquired by Conseco in the 2001 Acquisition and operated as Conseco's wholly owned subsidiary, providing services principally to Conseco and its affiliates until November 14, 2002. Conseco accounted for the acquisition using the purchase method. All purchase accounting adjustments recorded by Conseco were pushed down to the financial statements of our predecessor as the acquisition by Conseco created a new accounting basis for our predecessor. Accordingly, our predecessor recognized goodwill of $46.0 million. Our predecessor subsequently recorded a goodwill impairment charge of $46.0 million.

We were formed by a group including Vikram Talwar, Rohit Kapoor, Oak Hill Capital Partners L.P., FTVentures and certain other members of our senior management team. On November 14, 2002, we purchased EXL Inc. from Conseco in the 2002 Acquisition and EXL Inc. became our wholly owned subsidiary. We accounted for the 2002 Acquisition using the purchase method in accordance with Statement of Financial Accounting Standards No. 141 "*Business Combination*," or SFAS 141. The fair value of the net assets acquired exceeded the cost.

In accordance with SFAS 141, we allocated the excess of the fair value over the cost to the non-current assets acquired. Such allocation resulted in reducing the carrying value of fixed assets to zero, and we recognized the remaining excess of the fair value of the net assets acquired over cost of approximately $5.0 million as an extraordinary gain in our consolidated financial statements. As a result, the net carrying value of the fixed assets we acquired in the 2002 Acquisition was recorded at zero value in our books, causing depreciation expense to decline after the 2002 Acquisition.

Inductis Acquisition

On July 1, 2006, we completed the Inductis Acquisition. Inductis is a provider of research and analytics services. The Inductis Acquisition has expanded the types and sophistication of the research and analytics services we offer. Inductis had approximately 250 employees and had revenues of $13.6 million in the first six months of 2006 and $20.9 million in 2005. We estimate that the total consideration for this acquisition, including the assumption of liabilities, working capital adjustment, earnout and contingent payments and transaction costs, is approximately $31.9 million. We paid approximately $13.0 million at the closing of the Inductis Acquisition in the form of $2.4 million in cash, the issuance of 535,918 shares of our Series A common stock (

shares of our common stock after giving effect to the Share Conversion), $0.9 million in transaction costs and a $0.4 million bonus payable in January 2007. We also assumed $4.3 million of Inductis debt. We are obligated to make an additional approximately $0.5 million working capital adjustment payment based on the net working capital of Inductis and its subsidiaries as of June 30, 2006. We also agreed to make certain earnout payments to the former holders of Inductis securities of up to 389,906 shares of Series A common stock (shares of our common stock after giving effect to the Share Conversion) based on the satisfaction of certain agreed-upon financial performance goals for the historic Inductis business in 2006 and 2007 and certain additional contingent payments in a mix of cash and additional shares of our common stock, the mix of which cannot be determined until the size of the contingent payments, if any, is determined, based on the satisfaction of certain agreed-upon financial performance goals for the historic Inductis business in 2007. The value of any such contingent payments is expected to range from $0.6 million to $6.5 million.

As a result of the Inductis Acquisition, our historical results of operations will not be comparable to our results of operations in future periods. See "The Inductis Acquisition" and "Unaudited Pro Forma Consolidated Financial Information" for a more complete discussion of the terms of the Inductis Acquisition.

Critical Accounting Policies

We consider the policies discussed below to be critical to an understanding of our 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 and stock-based compensation. 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

We derive revenues from BPO, research and analytics and advisory services provided on a cost-plus, time-and-materials or unit-priced basis. We recognize revenues as services are rendered, provided that persuasive evidence of an arrangement exists, there are no remaining obligations with respect to the services rendered and collection is considered probable. We invoice clients in accordance with agreed rates and billing arrangements. We recognize revenues from the last billing date to the balance sheet date as unbilled revenues, and we recognize billings in excess of revenues earned or advances received from clients as deferred income.

Under cost-plus arrangements, we apply a mark-up (based on the service levels we achieve) to the contractually agreed direct and apportioned indirect costs we incur and invoice the client for the marked-up cost. Time-and-materials arrangements typically involve billings based on productive time as we perform the related services. Unit-price arrangements involve billings based on productive units as we deliver the services to the client.

Income Taxes

As part of the process of preparing our consolidated financial statements, we estimate our income taxes in each of the jurisdictions in which we operate. Tax estimates include decisions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. Based on our evaluation of our tax position and the information presently available to us, we believe we have adequately accrued for probable exposures as of December 31, 2005. To the extent we are able to prevail in matters for which accruals have been established or are required to pay amounts in excess of our reserves, our effective tax rate in a given financial statement period may be materially impacted.

Applicable transfer pricing regulations require that any international transaction involving associated enterprises be at an arm's length price. Transactions among our subsidiaries and us may be considered such transactions. Accordingly, we determine the pricing among our associated enterprises on the basis of detailed functional and economic analysis involving benchmarking against transactions among entities that are not under common control. We are currently involved in disputes with Indian tax authorities over the application of some of our transfer pricing policies. See "Business—Legal Proceedings."

We recognize deferred tax assets and liabilities for future tax consequences attributable to temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date.

We determine if a valuation allowance is required or not on the basis of an assessment of whether it is more likely than not that a deferred tax asset will be realized. At December 31, 2005, we performed an analysis of the deferred tax asset valuation allowance and concluded that a valuation allowance offsetting the deferred tax assets not be recorded at December 31, 2005, based on our conclusion that it is more likely than not that there will be future taxable income to realize the deferred tax assets. See Note 10, "Income Taxes," in the notes to our consolidated financial statements for the year ended December 31, 2005.

Stock-based Compensation

Effective January 1, 2006, we adopted SFAS No. 123(R), "*Share-Based Payment*," or SFAS 123(R), using the modified prospective method of transition with regard to stock-based awards. In connection with our adoption of SFAS 123(R), we believe that stock-based compensation expense for 2006 related to stock-based payments granted prior to January 1, 2006 and unvested as of that date will be approximately $0.7 million, of which $0.4 million was recorded for the six months ended June 30, 2006. See Note 12, "Stock Based Compensation," in the notes to our unaudited consolidated financial statements for the six months ended June 30, 2006. Until the consummation of this offering, we will continue to use third party valuation firms to perform valuations of the fair value of our securities in connection with stock-based equity grants.

Prior to January 1, 2006, we accounted for stock-based payments using Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*," or APB 25. Under APB 25, compensation expense was generally not recognized when both the exercise price is the same as the market price and the number of shares to be issued is set on the date the employee stock option is granted. We chose to use the intrinsic value method to measure our compensation costs. If we had used the fair value method, we would have recognized additional compensation expense of $0.5 million, $0.3 million and nil in 2005, 2004 and 2003, respectively. See Note 2, "Summary of Significant Accounting Policies," in the notes to our consolidated financial statements for the year ended December 31, 2005. See Note 11, "*Stock Based Compensation*," in the notes to our consolidated financial statements for the year ended December 31, 2005 for significant factors considered in determining the fair value of our stock.

Derivative Instruments

In the normal course of business, we actively look to mitigate the exposure of foreign currency market risk by entering into various hedging instruments, authorized under our policies with counterparties that are highly rated financial institutions. Our primary exchange rate exposure is with the pound sterling and Indian rupee. We use derivative instruments for the purpose of mitigating the underlying exposure from foreign currency fluctuation risks associated with forecasted transactions denominated in certain foreign currencies and to minimize earnings and cash flow volatility associated with the changes in foreign currency exchange rates, and not for speculative trading purposes. We also hedge anticipated transactions that are subject to foreign exchange exposure with foreign exchange contracts that are designated effective and qualify as cash flow hedges, under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Changes in the fair value of these cash flow hedges which are deemed effective, are recorded in accumulated other comprehensive income (loss) until the contract is settled and at that time are recognized in the consolidated statements of operations. 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 operations.

We entered into forward exchange contracts during the years ended December 31, 2005, 2004 and 2003. At December 2005, forward exchange contracts of $44.5 million and GBP 8.2 million were outstanding. At December 31, 2004, forward exchange contracts of $11.3 million were outstanding and there were no contracts outstanding at December 31, 2003. The fair value of such contracts outstanding at December 31, 2005 and 2004 was $0.5 million and $0.1 million, respectively.

We have evaluated the effectiveness of all forward exchange contracts. For the year ended December 31, 2005, net gains from ineffective cash flow hedges included in the consolidated statement of operations totaled approximately $1.4 million. For hedge relationships discontinued because the forecasted transaction is not expected to occur by the end of the originally specified period, any related derivative amounts recorded in equity are reclassified to earnings.

Pension Plan Liability

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

The discount rate enables us to state expected future cash flows at a present value on the measurement date. The discount rate we use is equal to the yield on high quality fixed income investments in India at the measurement date. A lower discount rate increases the present value of benefit obligations and therefore increases gratuity expense. Since our Gratuity Plan is unfunded, we have not assumed any returns on assets. See Note 8, “Employee Benefit Plans,” in the notes to our consolidated financial statements for the year ended December 31, 2005.

Results of Operations

The following table summarizes our results of operations (dollars in millions):

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
	(unaudited)	(unaudited)			
Revenues(1)	$ 46.8	$ 35.6	$ 74.0	$ 60.5	$ 27.8
Cost of revenues(2)	29.9	23.7	47.6	38.7	18.4
Gross profit	16.9	11.9	26.4	21.8	9.4
Operating expenses:					
General and administrative expenses(3)	7.3	6.0	13.2	11.1	7.9
Selling and marketing expenses(3)	1.5	0.8	1.7	1.5	1.1
Depreciation and amortization	3.6	3.0	5.9	3.9	0.4
Total operating expenses	12.4	9.8	20.8	16.5	9.4
Income from operations	4.5	2.1	5.6	5.3	—
Other income (expense):					
Foreign exchange gain (loss)	(0.7)	1.1	0.9	0.8	0.4
Interest and other income	0.6	0.2	0.7	0.2	0.2
Interest expense	(0.2)	(0.2)	(0.4)	(0.3)	(0.3)
Interest expense—redeemable preferred stock	—	(0.3)	(0.4)	(0.6)	(0.3)
Income before income taxes	4.2	2.9	6.4	5.4	—
Income tax (benefit) provision	0.5	0.2	(0.6)	—	0.8
Net income (loss)	3.7	2.7	7.0	5.4	(0.8)
Dividends and accretion on preferred stock	(0.3)	—	(0.2)	—	(0.2)
Net income (loss) to common stockholders	$ 3.4	$ 2.7	$ 6.8	$ 5.4	$ (1.0)

(1) In accordance with GAAP, we include the amount of telecommunications and travel-related costs that are billed to and reimbursed by our clients in our revenues.

(2) Cost of revenues includes non-cash amortization of deferred stock compensation expense relating to our issuance of stock options to employees directly involved in providing services to our clients. Cost of revenues excludes depreciation and amortization related to fixed assets.

(3) SG&A expenses include non-cash amortization of deferred stock compensation expense relating to our issuance of stock options to our non-operations staff.

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Revenues. Revenues increased 31.5% from $35.6 million for the first six months of 2005 (including $1.6 million of reimbursable expenses) to $46.8 million for the first six months of 2006 (including $2.0 million of reimbursable expenses). We recognized revenues from 39 clients, including clients for our research and analytics services and our advisory services, during the first six months of 2006 compared to 25 during the first six months of 2005. Revenues attributable to new clients (excluding revenue increases attributable to existing clients) were $8.4 million for the first six months of 2006.

Cost of Revenues. Cost of revenues increased 26.2% from $23.7 million for the first six months of 2005 (including $1.6 million of reimbursable expenses) to $29.9 million for the first six months of 2006 (including $2.0 million of reimbursable expenses). Salaries and personnel expenses increased from $15.4 million in the 2005 period to $19.7 million in the 2006 period as a result of an increase in operating staff from 4,573 employees at June 30, 2005 to 7,107 employees at June 30, 2006. Cost of revenues also increased due to an increase in reimbursable expenses, primarily as a result of significant additional costs associated with training activities on client premises. Facilities operating costs increased from $3.2 million for the first six months of 2005 to $3.8 million for the first six months of 2006, primarily reflecting our increased workforce and the commencement of operations in February 2006 of a new 1,000-seat center in Noida. Technology and telecommunications operating costs remained relatively flat at $3.1 million for both periods. As a percentage of revenues, cost of revenues decreased from 66.6% for the first six months of 2005 to 63.9% for the first six months of 2006.

Gross Profit. Gross profit increased 42.0% from $11.9 million for the first six months of 2005 to $16.9 million for the first six months of 2006. As a percentage of revenues, gross profit increased from 33.4% for the first six months of 2005 to 36.1% for the first six months of 2006.

SG&A Expenses. SG&A expenses increased 29.4% from $6.8 million for the first six months of 2005 to $8.8 million for the first six months of 2006. General and administrative expenses increased 21.7% from $6.0 million for the first six months of 2005 to $7.3 million for the first six months of 2006 and selling and marketing expenses increased 87.5% from $0.8 million for the first six months of 2005 to $1.5 million for the first six months of 2006. These increases were primarily due to the addition of headquarters and sales and marketing staff in the United States, as well as an increase in audit and other professional fees incurred in anticipation of becoming a public company. Salary and personnel expenses increased from $4.2 million for the first six months of 2005 to $5.3 million for the first six months of 2006. Marketing and business promotion expenses increased from $0.8 million for the first six months of 2005 to $1.4 million for the first six months of 2006, reflecting not only the addition of staff referred to above, but also a general increase in marketing activities. As a percentage of revenues, SG&A expenses decreased from 19.1% for the first six months of 2005 to 18.8% for the first six months of 2006.

Depreciation and Amortization. Depreciation and amortization increased 20.0% from $3.0 million for the first six months of 2005 to $3.6 million for the first six months of 2006. The increase was primarily due to the commencement of operations at the additional center referred to above. As we add clients, we also expect that depreciation expense will increase, reflecting additional investment in equipment and facilities necessary to meet service requirements.

Income From Operations. Income from operations increased 114.3% from $2.1 million for the first six months of 2005 to $4.5 million for the first six months of 2006. Operating margin increased period-to-period as revenue growth outpaced growth in operating expenses in the 2006 period at a higher rate than in the 2005 period.

Other Income/(Expenses). Other income/expense decreased from income of $0.8 million for the first six months of 2005 to an expense of $0.3 million for the first six months of 2006 as a result of foreign exchange losses. Other income is comprised of foreign exchange gains and losses, interest income and expense and interest expense on redeemable preferred stock. Foreign exchange showed a loss of $1.8 million year over year comparing the first six months of 2006 to the first six months of 2005. Interest and other income and interest expense for the two periods reflected the reclassification of our preferred stock from debt to equity on August 16, 2005 as a result of our adopting SFAS 150 "*Accounting for Certain Financial Instruments with Characteristics of Both Liabilities*," or SFAS 150, on July 1, 2003. For the first six months of 2006, we accrued dividends in lieu of the interest expense accrued in the comparable prior period. See Note 6, "Redeemable Preferred Stock," in the notes to consolidated financial statements for the year ended December 31, 2005.

Provision for Income Taxes. Provision for income taxes increased from $0.2 million in the first six months of 2005 to $0.5 million in the first six months of 2006. The lower tax expense in the first six months of 2005 was the result of the geographical mix of where our income is derived.

Dividends and Accretion on Preferred Stock. Dividends and accretion on preferred stock was $0.3 million for the six months ended June 30, 2006, reflecting the reclassification of our preferred stock in

August 2005. The preferred stock was classified as debt in the comparable prior period. See Note 6, “Redeemable Preferred Stock,” in the notes to consolidated financial statements for the year ended December 31, 2005.

Net Income (Loss) to Common Stockholders. Net income increased 25.9% from $2.7 million for the first six months of 2005 to $3.4 million for the first six months of 2006.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Revenues. Revenues increased 22.3% from $60.5 million for 2004 (including $4.2 million of reimbursable expenses) to $74.0 million for 2005 (including $3.4 million of reimbursable expenses). The increase was the result of an increase in clients in 2005 and the growth in that period of our advisory services. We added 17 new clients for our services, including advisory services, during 2005 compared to ten new clients during 2004. Revenues attributable to new clients (excluding revenue increases attributable to existing clients) were $5.4 million for 2005 accounting for 7.3% of revenues.

Cost of Revenues. Cost of revenues increased 23.0% from $38.7 million for 2004 (including $4.2 million of reimbursable expenses) to $47.6 million for 2005 (including $3.4 million of reimbursable expenses). Salaries and personnel expenses increased from $23.1 million for 2004 to $30.4 million for 2005 as a result of an increase in operating staff from 4,788 at December 31, 2004 to 5,137 at December 31, 2005. Cost of revenues also increased due to an increase in reimbursable expenses, primarily as a result of significant additional costs associated with training activities on client premises. Facilities operating costs increased from $5.5 million for 2004 to $6.4 million for 2005 primarily as a result of our increased workforce. Our technology and telecommunications operating costs remained flat at $6.1 million. As a percentage of revenues, cost of revenues was also flat at approximately 64.0% comparing 2004 to 2005.

Gross Profit. Gross profit increased 21.1% from $21.8 million for 2004 to $26.4 million for 2005. As a percentage of revenues, gross profit decreased from 36.0% for 2004 to 35.7% for 2005.

SG&A Expenses. SG&A expenses increased 18.3% from $12.6 million for 2004 to $14.9 million for 2005. General and administrative expenses increased 18.9% from $11.1 million for 2004 to $13.2 million for 2005 and selling and marketing expenses increased 13.3% from $1.5 million for 2004 to $1.7 million for 2005. Salary and personnel expenses increased from $7.5 million for 2004 to $8.2 million for 2005 as a result of adding staff in the United States and India. Marketing and business promotion expenses increased from $1.5 million in 2004 to $1.7 million in 2005, reflecting not only the additional staff referred to above, but also a general increase in marketing activities. SG&A expenses declined as a percentage of revenues from 20.8% for 2004 to 20.1% for 2005.

Depreciation and Amortization. Depreciation and amortization increased from $3.9 million for 2004 to $5.9 million for 2005, primarily reflecting the investment in equipment and hardware in our operation centers in India necessary to meet service requirements.

Income From Operations. Income from operations increased 5.7% from $5.3 million for 2004 to $5.6 million for 2005. The increase in operating margin was primarily due to an increase in our revenues recognized from providing services to our clients, partially offset by an increase in our expenses to meet the requirements of servicing our customers.

Other Income/(Expenses). Other income increased significantly from $0.2 million for 2004 to $0.8 million for 2005. Foreign exchange gain increased a net $0.1 million from $0.8 million in 2004 to $0.9 million in 2005, primarily as a result of recording a gain of approximately $1.4 million relating to ineffective cash flow hedges in 2005 offset by foreign exchange losses relating to the recording of effective cash flow hedges as well as losses on revaluation of our monetary assets and liabilities denominated in currencies other than their functional currencies.

Interest and other income and interest expense resulted in an expense of $0.1 million in 2004 and income of $0.3 million in 2005. Interest expense on preferred stock decreased from $0.6 million in 2004 to $0.4 million in 2005 as a result of the reclassification during 2005 of our preferred stock to equity, which generated dividend expense in lieu of interest expense. See Note 6, "Redeemable Preferred Stock," in the notes to consolidated financial statements for the year ended December 31, 2005.

Provision for Income Taxes. Provision for income taxes was a benefit in 2005 of $0.6 million as a result of a reversal of the deferred tax asset valuation of $0.9 million at December 31, 2005, partly offset by an increase in state taxes of $0.3 million. At December 31, 2005, we performed an analysis of the deferred tax asset valuation allowance and concluded that a valuation allowance offsetting the deferred tax assets not be recorded at December 31, 2005, based on our conclusion that it is more likely than not that there will be future taxable income to realize the deferred tax assets. See Note 10, "Income Taxes," in the notes to consolidated financial statements for the year ended December 31, 2005. The 2004 provision includes $0.1 million related to U.S. federal alternative minimum taxes and taxes on non-exempt income in India offset by $0.1 million of deferred tax benefits which we believe will more likely than not be realized.

Dividends and Accretion on Preferred Stock. Dividend and accretion on preferred stock was $0.2 million for the year ended December 31, 2005, reflecting the reclassification of our preferred stock as described above. See Note 6, "Redeemable Preferred Stock," in the notes to consolidated financial statements for the year ended December 31, 2005.

Net Income to Common Stockholders. Net income to common stockholders increased 25.9% from $5.4 million in 2004 to $6.8 million for 2005.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Revenues. Revenues increased approximately 117.6% from $27.8 million for 2003 (including $0.6 million of reimbursable expenses) to $60.5 million for 2004 (including $4.2 million of reimbursable expenses) primarily as a result of the growth of our client base, the increase in size and number of services we provided and the addition of new services, such as advisory services. We added ten new clients for our services, including advisory services, during 2004 compared to two new clients during 2003. Revenues attributable to new clients were $6.4 million for 2004 accounting for 10.6% of revenues of which $2.5 million represented revenues from advisory services. As a result of providing services for the entire year in 2004 as compared to only during a part of the period during 2003, we generated more revenue in 2004 (an increase of $20.0 million) from clients added in 2003, including Norwich Union. These increases were partially offset by a decline in revenues from Conseco, principally as a result of Conseco's reduced business activity following its bankruptcy in late 2002. In 2004, Conseco contributed 2.5% of revenues compared to 17.6% of revenues for 2003.

Cost of Revenues. Cost of revenues increased 110.3% from $18.4 million for 2003 (including $0.6 million of reimbursable expenses) to $38.7 million for 2004 (including $4.2 million of reimbursable expenses). Salaries and personnel expenses increased from $11.2 million for 2003 to $23.1 million for 2004 as a result of an increase in operating staff from 2,344 at December 31, 2003 to 4,788 at December 31, 2004. Cost of revenues also increased due to an increase in reimbursable expenses primarily as a result of significant additional costs associated with training activities on client premises. Facilities operating costs increased from $2.7 million for 2003 to $5.5 million for 2004 primarily reflecting our increased workforce and the commencement of operations in January 2004 of new 2,118-seat facilities in Pune. Technology and telecommunications operating costs increased 53.0% from $4.0 million for 2003 to $6.1 million for 2004 as a result of our increased business volume. As a percentage of revenues, cost of revenues decreased from 66.2% for 2003 to 64.0% for 2004 due to improved employee utilization.

Gross Profit. Gross profit increased 131.9% from $9.4 million for 2003 to $21.8 million for 2004. As a percentage of revenues, gross profit increased from 33.8% for 2003 to 36.0% for 2004.

SG&A Expenses. SG&A expenses increased 40.0% from $9.0 million for 2003 to $12.6 million for 2004. General and administrative expenses increased 40.5% from $7.9 million for 2003 to $11.1 million for 2004 and selling and marketing expenses increased 36.4% from $1.1 million for 2003 to $1.5 million for 2005. These increases were primarily due to increased salary and personnel expenses relating to our non-operations staff incurred to expand our sales efforts and organizational infrastructure. Salary and personnel expenses increased from $5.1 million for 2003 to $7.6 million for 2004. SG&A expenses declined as a percentage of revenues from 32.4% for 2003 to 20.8% for 2004. We believe that the rate of increase in our SG&A expenses was lower than the corresponding increase in our revenues as a result of our more effective utilization of resources and increased economies of scale.

Depreciation and Amortization. Depreciation and amortization increased significantly from $0.4 million for 2003 to $3.9 million for 2004. The 2002 Acquisition of EXL Inc. from Conseco resulted in negative goodwill. In accordance with SFAS 141, we allocated the excess of the fair value over cost to the fixed assets and other non current assets acquired thereby reducing their carrying value to zero as of November 15, 2002. Accordingly there was minimal depreciation for 2003. Depreciation for 2004 includes depreciation on fixed assets acquired since the 2002 Acquisition, particularly for our Pune facilities described above.

Income From Operations. Income from operations has improved from break-even for 2003 to income of $5.3 million for 2004. The increase in operating margin was primarily due to increased revenues from clients other than Conseco resulting from our sales and marketing efforts during 2003 and 2004.

Other Income/(Expenses). Interest and other income and interest expense for 2004 and 2003 remained unchanged at $0.1 million. Foreign exchange gain increased by 100% to $0.8 million in 2004 from $0.4 million in 2003 primarily due to depreciation of the U.S. dollar as compared to the pound sterling. Interest expense on preferred stock has increased to $0.6 million in 2004 from $0.3 million in 2003 as a result of our adopting SFAS 150.

Provision for Income Taxes. The provision for income taxes in 2003 was principally for U.S. federal alternative minimum taxes. The 2004 provision includes $0.1 million related to U.S. federal alternative minimum taxes and taxes on non-exempt income in India offset by $0.1 million of deferred tax benefits which we believe will more likely than not be realized.

Dividends and Accretion on Preferred Stock. Dividends and accretion on preferred stock for 2003 and 2004 reflected the adoption of SFAS 150, which in turn resulted in the reclassification of our preferred stock as debt. See Note 6, "Redeemable Preferred Stock," in the notes to consolidated financial statements for the year ended December 31, 2005.

Net Income (Loss) to Common Stockholders. Net income to common stockholders increased significantly from a loss of $1.0 million for 2003 to income of $5.4 million for 2004.

Liquidity and Capital Resources

Historically, our capital requirements have principally been for establishing offshore operations facilities in India and acquisitions. We expect this to continue for the foreseeable future. We have financed our operations primarily through sales of equity and some debt securities and, more recently, through cash flows from operations. In connection with the 2002 Acquisition in December 2002, we sold promissory notes, preferred stock and common stock to a group of our stockholders and certain members of our management for an aggregate of $10.1 million. In July 2004, we issued and sold 526,316 shares of our Series A common stock (shares of our common stock after giving effect to the Share Conversion) to our client, Norwich Union, for an aggregate purchase price in cash of $12.5 million. At June 30, 2006, we had $24.3 million in cash and cash equivalents on hand.

Generally, factors that affect our earnings—for example, pricing, volume of services, costs and productivity—affect our cash flows provided by operations similarly. However, while management of working capital, including timing of collections and payments, affects operating results only indirectly, the impact on working capital and cash flows provided by operating activities can be significant. In the first six months of 2006, cash flows from operating activities decreased to $2.7 million compared to $4.4 million for the first six months of 2005. This decrease is predominantly due to an increase in accounts receivable as a result of the timing of customer payments, an increase in deferred taxes and a decrease in deferred revenue in the first six months of 2006. This increase was offset by a decrease in accounts payable and accrued expenses due to the timing of payments to our vendors and prepaid expenses. Cash flows provided by operating activities increased to $13.1 million for 2005 compared to $9.9 million for 2004 due to several factors. Net income increased in 2005 by $1.6 million due to continued growth in our business. In addition, increases in our deferred tax assets and accounts receivable in 2005 were offset by an increase in our deferred revenue as a result of a revenue advance from Norwich Union and increased depreciation expenses resulting from capital investments made in 2004. Cash flows provided by operating activities increased to $9.9 million for 2004 compared to cash used in operating activities of approximately $1.9 million for 2003 due to several factors. Net income increased to $5.4 million for 2004 compared to a net loss of $0.8 million for 2003 as a result of higher business volumes and better utilization of committed resources. In addition, cash flows for 2004 increased on account of revenue advances received from Norwich Union during the year. Our 2004 cash flows were also affected by an increase, when compared to 2003, in accounts receivable, prepaid expenses and other current assets of $3.5 million due to higher business volumes during 2004 offset by an increase in accrued expenses and other liabilities of $2.2 million due to the timing in payment of certain liabilities.

Cash used in investing activities has been mainly for the purchase of fixed assets, including telecommunications equipment and leasehold improvements, and the development of our five historical operating facilities in India. Cash used in investing activities increased to $2.3 million in the first six months of 2006 from $1.8 million in the first six months of 2005. The increase is a result of the purchase of fixed assets for the new operations center in Noida, which has a capacity of approximately 1,000 seats. Cash used in investing activities decreased to $7.1 million for 2005 from $12.3 million for 2004, mainly because we had no new facilities become operational in 2005 and thus incurred less leasehold improvements and other facility expenditures in that period. Cash used in investing activities increased to $12.3 million for 2004 from $5.4 million for 2003 as a result of the development of our operating facilities in Pune, which have a capacity of approximately 2,118 seats. We spent a significant portion of these funds on leasehold improvements and technology and telecommunications infrastructure.

Cash used in financing activities increased as a result of repurchasing our common stock from former employees and an increase in capital lease principal payments during the first six months of 2006 as compared to the first six months of 2005. Cash used in financing activities was $0.1 million for 2005 compared to cash provided by financing activities of $12.4 million for 2004, reflecting Norwich Union’s purchase of 526,316 shares of our Series A common stock in July 2004. Cash provided by financing activities increased to $12.4 million for 2004 from $0.6 million for 2003 primarily as a result of the Norwich Union investment.

We expect to use cash from operating activities to maintain and expand our business. As we have focused on expanding our cash flow from operating activities, we have made significant capital investments, primarily related to capital expenditures related to new facilities. Capital expenditures we make to meet client needs represent primarily leasehold improvements to buildout facilities, telecommunications equipment, and computer hardware and software we purchase in connection with managing client operations. We currently have no individually large outstanding commitments for these capital expenditures. The timing and volume of such capital expenditures in the future will be affected by new contracts we may enter into or the expansion of our existing contracts. Therefore, we cannot reasonably predict our capital expenditures beyond 2006. We anticipate that we will continue to rely upon cash from operating activities to finance our capital expenditures and working capital needs.

We made capital expenditures of approximately $7.1 million in 2005, $12.3 million in 2004 and $5.4 million in 2003. Capital expenditures in 2005 related primarily to the development of our new center in Noida, and capital expenditures in 2004 related to, among other things, the opening of our new operating facilities in Pune.

We expect to incur approximately $5.0 million of capital expenditures in 2006, of which we had incurred approximately $2.3 million as of June 30, 2006. We expect capital expenditures in 2006 will be used primarily to meet the growth requirements of our clients, as well as to improve our internal technology. In addition, we are contractually committed to one of our clients to establish and maintain a viable offshore BPO operation outside of India by March 2007, either on our own or through a relationship (such as a joint venture, partnership or alliance) with other parties where we maintain at least 26% of the controlling interest. This new facility must be capable of providing the services currently being performed for that client in India at a comparable cost to us and must be comparable in size to the existing facility from which the client services are being provided. We are presently evaluating a few specific locations for this facility. We anticipate that we will utilize cash flow from operating activities to finance the capital expenditures related to this facility.

On July 1, 2006, we completed the Inductis Acquisition. We estimate that the total consideration for the Inductis Acquisition, including the assumption of liabilities, working capital adjustment, earnout and contingent payments and transaction costs is approximately $31.9 million. We paid approximately $13.0 million at the closing of the Inductis Acquisition in the form of $2.4 million in cash, the issuance of 535,918 shares of our Series A common stock (shares of our common stock after giving effect to the Share Conversion), $0.9 million in transaction costs and a $0.4 million bonus payable in January 2007. We are obligated to make an additional approximately $0.5 million working capital adjustment payment based on the net working capital of Inductis and its subsidiaries as of June 30, 2006. We also assumed lines of credit, a term loan and certain other Inductis debt. As of June 30, 2006, an aggregate of $2.5 million was outstanding under the lines of credit and $1.8 million was outstanding under the term loan. We also agreed to make certain earnout payments to the former holders of Inductis securities of up to 389,906 shares of Series A common stock (shares of our common stock after giving effect to the Share Conversion) based on the satisfaction of certain agreed-upon financial performance goals for the historic Inductis business in 2006 and 2007 and certain additional contingent payments in a mix of cash and additional shares of our common stock, the mix of which cannot be determined until the size of the contingent payments, if any, is determined, based on the satisfaction of certain agreed-upon financial performance goals for the historic Inductis business in 2007. The value of any such contingent payments is expected to range from $0.6 million to $6.5 million. See “The Inductis Acquisition” for a more detailed description of the terms of the Inductis Acquisition.

We intend to use the proceeds from this offering to repurchase or redeem all outstanding shares of our Series A preferred stock, the aggregate principal amount of which plus accrued but unpaid dividends was $6.5 million at June 30, 2006, and repay all outstanding promissory notes, the aggregate principal amount of which plus accrued but unpaid interest was $5.7 million at June 30, 2006, and for working capital and general corporate purposes. We believe that cash flow from operations and the net proceeds from this offering will be sufficient to meet our ongoing capital expenditure, working capital and other cash needs over the next two years. If we have significant growth through acquisitions or require additional operating facilities to service customer contracts, we may need to obtain additional financing.

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2005:

	Payments Due by Period (in millions)				
	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
Long-term debt	$ —	$ 5.6	$—	—	$ 5.6
Preferred Stock	—	6.2	—	—	6.2
Capital leases	0.2	0.3	—	—	0.5
Operating leases	0.8	0.8	0.1	—	1.7
Purchase obligations	1.4	—	—	—	1.4
Service and supply contracts	—	—	—	—	—
Employment agreements (1)	2.6	7.9	5.2	2.6	18.3
Other long-term liabilities reflected on balance sheet	—	—	—	—	—
Total contractual cash obligations	$ 5.0	$20.8	$ 5.3	$ 2.6	$33.7

(1) See “Management—Executive Compensation—Employment Agreements” for a description of these employment agreements.

We have entered into an Insurance Services Framework Agreement and related Virtual Shareholders’ Agreement with Norwich Union pursuant to which we have granted Norwich Union the option from January 2008 through February 2011 to purchase the shares of our subsidiary that operates one of our facilities in Pune, India, upon the payment of an amount that will approximate the net asset value of that facility on the date of transfer. Norwich Union has recently publicly announced its intention to start exercising its option to assume the operations of the facilities of certain of its third party vendor-contractors, including one of our facilities in Pune. The exercise of this option would result in both a loss of revenues and the loss of all of our employees who are at that time working under that contract. We expect that any decline in revenues that we would experience when Norwich Union exercises this option would be partially offset by a decrease in expenses associated with the operation of the Pune facilities. See “Certain Relationships and Related Transactions—Agreements with Norwich Union—Option to Purchase Stock of NCOP” and “Risk Factors—Risks Related To Our Business—Our agreements with our largest client give it the option to assume the operations of one of our facilities, and the exercise of that option could have an adverse effect on our business and results of operations.”

EXL India and NCOP have been established as “Export-Oriented Undertaking” enterprises under the Export Import Policy, a policy formulated by the Government of India that has provided us with certain incentives on the import of capital goods. Under this policy, EXL India and NCOP must achieve certain export ratios and realize revenues attributable to exports of $244.5 million and $43.4 million, respectively, over a period of five years. As of June 30, 2006, EXL India and NCOP had achieved export revenues of $68.6 million and $29.2 million, respectively. We are required to have export revenues of $22.4 million during the period from 2006 to 2008 and $167.7 million during the period from 2006 to 2010. In the event that EXL India and NCOP are unable to meet these requirements over the specified period, we may be required to refund these incentives along with penalties and fines. However, management believes that EXL India and NCOP will achieve these export levels within the required timeframe as both EXL India and NCOP have consistently generated the required levels of export revenues. Under the policy, EXL India and NCOP were entitled to import capital goods with a value of $32.3 million and $7.9 million, respectively, free of any import duties. We have not utilized $17.3 million of the duty-free imports allowance of which $9.7 million is due to expire in 2008 and $7.6 million is due to expire in 2010.

In connection with the Inductis Acquisition, we also agreed to make certain earnout payments to the former holders of Inductis securities, payable in an amount of additional shares of our Series A common stock not exceeding an aggregate of 389,906 shares (shares of our common stock after giving effect to the Share

Conversion), based on whether the operations of the historic Inductis business satisfy certain agreed-upon financial performance goals in 2006 and 2007. Based on satisfaction of certain agreed upon financial performance goals for the historic Inductis business in 2007, we also agreed to make certain additional contingent payments to former holders of Inductis securities in a mix of cash and additional shares of our common stock, the mix of which cannot be determined until the size of the contingent payments, if any, is determined. The value of any such contingent payments will range from $0.6 million to $6.5 million. We also agreed to make a $0.4 million bonus payment in January 2007. See "The Inductis Acquisition."

Off-Balance Sheet Arrangements

As of December 31, 2005 and June 30, 2006, we had no off-balance sheet arrangements or obligations.

Quantitative and Qualitative Disclosures About Market Risk

General

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

Our exposure to market risk is a function of our borrowing activities and revenue generating activities in foreign currencies. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss. Most of our exposure to market arises out of our foreign currency accounts receivable.

Risk Management Procedures

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

Components of Market Risk

Exchange Rate Risk. The functional currency of ExlService Holdings and Exl Inc. is the U.S. dollar. The functional currency of EXL India, NCOP and ESS is Indian rupees and the functional currency of EXL U.K. is pounds sterling. In each case, the functional currency is the currency of the primary economic environment in which that entity operates. Monetary assets and liabilities in foreign currencies are translated into functional currency at the rate of exchange prevailing on the related balance sheet dates. Transactions in foreign currencies are translated into functional currency at the rate of exchange prevailing on the date of the transaction. All transaction-related foreign exchange gains and losses are recorded in the accompanying consolidated statement of operations. The assets and liabilities of subsidiaries are translated into U.S. dollars at the rate of exchange prevailing on the related balance sheet date. Revenues and expenses are translated into U.S. dollars at average exchange rates prevailing during the period. Resulting translation adjustments are included in the "accumulated other comprehensive income (loss)" balance sheet line item.

Our exposure to market risk arises principally from exchange rate risk. Although substantially all of our revenues are denominated in pounds sterling (51.8% in 2005, or 40.4% on a pro forma basis) or U.S. dollars (48.2% in 2005, or 59.6% on a pro forma basis), 78.9% of our expenses (or 64.5% on a pro forma basis) were incurred and paid in the Indian rupee in 2005. The exchange rates among the Indian rupee, the pound sterling and the U.S. dollar have changed substantially in recent years and may fluctuate substantially in the future. See "—Foreign Exchange—Exchange Rates."

Our exchange rate risk primarily arises from our foreign currency revenues, receivables and payables. Based upon our level of operations during 2005 and excluding any hedging arrangements that we had in place during that period, a 5.0% appreciation/depreciation in the pound sterling against the U.S. dollar would have increased/decreased revenues in 2005 by approximately $1.9 million. Similarly, a 5.0% depreciation in the Indian rupee against the U.S. dollar would have decreased our expenses incurred and paid in rupees in 2005 by approximately $2.5 million. Conversely, a 5.0% appreciation in the Indian rupee against the U.S. dollar would have increased our expenses incurred and paid in Indian rupees during 2005 by approximately $2.8 million.

We have sought to reduce the effect of Indian rupee-U.S. dollar exchange rate fluctuations on our operating results by purchasing forward foreign exchange contracts to cover a portion of outstanding accounts receivable designated in foreign currencies. We entered into forward exchange contracts in 2003, 2004 and 2005. None of the contracts entered into in 2003 were outstanding at December 31, 2003. Forward exchange contracts with a notional amount of $44.5 million and 8.2 million pounds sterling ($14.1 million at exchange rates in effect on December 31, 2005) were outstanding at December 31, 2005 and of $11.3 million were outstanding at December 31, 2004. The fair value of such contracts at December 31, 2005 and December 31, 2004 was $0.5 million and $0.1 million, respectively. The forward foreign exchange contracts typically mature within nine months, must be settled on the day of maturity and may be cancelled subject to the payment of any gains or losses in the difference between the contract exchange rate and the market exchange rate on the date of cancellation. We use these instruments as economic hedges and not for speculative purposes. We may not purchase contracts adequate to insulate ourselves from Indian rupee-U.S. dollar foreign exchange currency risks. In addition, any such contracts may not perform adequately as a hedging mechanism. We may, in the future, adopt more active hedging policies, and have done so in the past.

Interest Rate Risk. Our exposure to interest rate risk arises principally from interest on our debt. We have $4.9 million in aggregate principal amount of senior promissory notes outstanding as of December 31, 2005. Interest on the principal amount of the promissory notes is payable at maturity and accrues at a rate equal to the greater of 2.02% semiannually or LIBOR. We intend to use the proceeds from this offering to repay all of our outstanding promissory notes, plus accrued but unpaid interest to the date of repayment. In connection with the Inductis Acquisition, we assumed certain debt obligations of Inductis. A portion of this debt is based on prime lending rates.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), which establishes standards for transactions in which an entity exchanges its equity for goods or services. Effective January 1, 2006, we adopted SFAS No. 123(R) using the modified prospective method of transition. Under the provisions of SFAS No. 123(R), the estimated fair value of stock-based awards granted under stock incentive plans are recognized as compensation expense over the vesting period. Under the modified prospective method, compensation expense is recognized beginning with the effective date of adoption of SFAS No. 123(R) for all stock-based payments (i) granted after the effective date of adoption and (ii) granted prior to the effective date of adoption and that remain unvested on the date of adoption. We currently believe that stock-based compensation expense for 2006-related stock-based payments granted prior to January 1, 2006 and unvested as of that date will be approximately $0.7 million, of which $0.4 million was recorded for the six months ended June 30, 2006.

In December 2004, the FASB issued SFAS No. 153, "*Exchanges of Nonmonetary Assets*," which eliminated the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not believe the adoption of SFAS No. 153 will have a material impact on our consolidated financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, "*Accounting Changes & Error Corrections*," which provided guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. This statement also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. SFAS No. 154 is effective for accounting changes and correction of errors made in fiscal year beginning after December 15, 2005. We do not believe the adoption of SFAS No. 154 will have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2006, the FASB issued SFAS No. 155, "*Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140*," or SFAS No. 155. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. We have not completed our evaluation of the effect SFAS No. 155 may have on our consolidated financial position, results of operations or cash flows.

In March 2006, the FASB issued SFAS No. 156, "*Accounting for Servicing of Financial Assets—an Amendment to FASB Statement No. 140*," or SFAS No. 156, which clarifies the accounting for separately recognized servicing assets and liabilities. SFAS No. 156 is effective in fiscal years beginning after September 15, 2006. We do not believe the adoption of SFAS No. 156 will have a material impact on our consolidated financial position, results of operations or cash flows.

In July 2006, the FASB issued Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*," or FIN 48. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition and clearly scopes income taxes out of SFAS No. 5, "*Accounting for Contingencies*." FIN 48 is effective for fiscal years beginning after December 15, 2006. We have not yet evaluated the impact of adopting FIN 48 on our consolidated financial position, results of operation or cash flows.

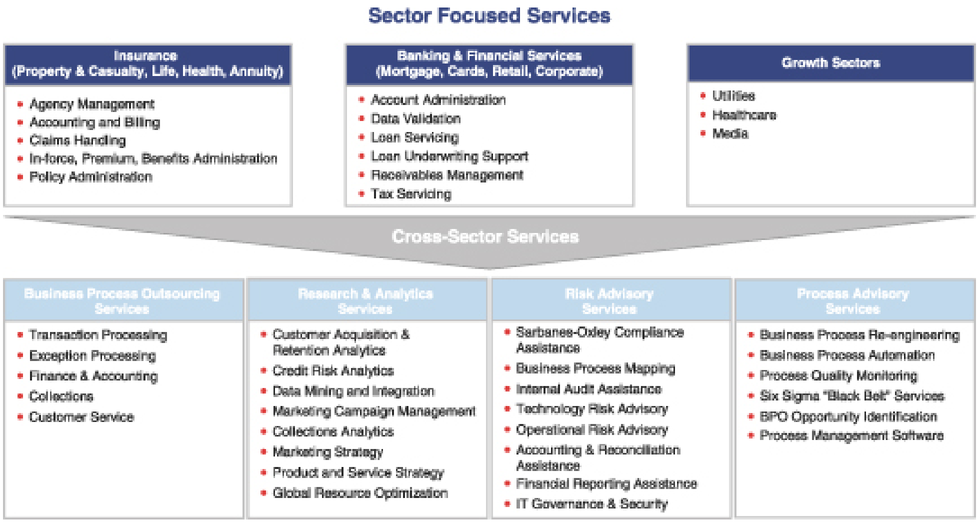
BUSINESS

Overview

We are a recognized provider of offshore BPO services, primarily serving the needs of Global 1000 companies in the BFSI sector. We provide a broad range of outsourcing services, including BPO services, research and analytics services and advisory services. The BPO services we provide 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. Our research and analytics services are intended to facilitate more effective data-based strategic and operating decisions by our clients using statistical and quantitative analytical techniques. Our advisory services include risk assessment, documentation and internal controls testing, business process re-engineering and process quality monitoring. Our revenues have grown from $27.8 million in 2003 to $60.5 million in 2004 and $74.0 million in 2005 for a compound annual growth rate of 63.2% during that period. Our revenue growth over the three-year period is driven by a combination of new clients, ongoing growth in existing client relationships as well as the inclusion of full-year revenues from clients added in the preceding year. On a pro forma basis, our revenues were $60.4 million for the six months ended June 30, 2006.

We combine in-depth knowledge of the BFSI sector with proven expertise in transferring business operations to our centers in India and administering and managing them for our U.S. and U.K.-based clients. We have successfully transferred more than 225 processes covering a broad array of products and services from 22 clients to our operations centers. With our recent acquisition of Inductis, a provider of research and analytics services, we have expanded the types and sophistication of research and analytics services we offer. We believe that the Inductis Acquisition will cause an increasing proportion of our revenues to be derived from these services. We have begun to expand our service offerings to other sectors with similar needs, such as utilities, healthcare and media, by leveraging our experience in the BFSI sector and operational expertise.

Our services include:



Our largest clients in 2005, on a pro forma basis, were Norwich Union (an Aviva company), American Express and Dell (including Dell Financial Services). Other clients include Centrica plc, Prudential Financial, Indymac Bank, one of the three largest U.S. banks, two of the five largest U.S. insurers and one of the largest global providers of business information.

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 team, which operates out of New York and London and our business development team, which operates out of Noida, India. Our senior managers have extensive experience in the BFSI sector as well as the business practices of leading multi-national corporations. Our operations centers are located in India, which enables us to leverage India's large talent pool of highly qualified and educated English-speaking technical professionals, who are able to handle complex processes that require functional skills and industry expertise. We also believe we can offer consistently high quality services at substantially lower costs than those available from in-house facilities or U.S. or U.K.-based outsourcing providers. In addition, we are contractually committed to investing in an operations facility outside of India by March 2007, which we believe will enhance our global delivery model and provide higher value to our clients through risk diversification and access to a pool of potential employees with language and other skills that will meet the needs of a broader range of potential clients.

We believe our reputation for operational excellence is widely recognized by our clients and is an important competitive advantage. We use Six Sigma, a data-driven methodology for eliminating defects in any process, to identify process inefficiencies and improve productivity in client and support processes. We also deliver continued process enhancements by soliciting and implementing process improvements from employees and through our proprietary software tools. As part of our commitment to quality, we have been awarded an ISO 9001:2000 certification for quality assurance and a BS7799 certification for information security, demonstrating our high standards for quality and information security. We have also received an OHSAS 18001 certification for all of our facilities in Noida and Pune recognizing our safety and health management practices. We believe our OHSAS 18001 certification demonstrates to our clients and employees our concern for the occupational health and safety of our employees.

History

We were founded in 1999 by a group of experienced professionals including Vikram Talwar, the former Chief Executive Officer and Managing Director of Ernst & Young Consulting India and the former Country Manager for Bank of America in India and other Asian countries, and Rohit Kapoor, a former business head for South Asian clients at Deutsche Bank Private Bank and a former head of non-resident Indian banking at Bank of America. Mr. Talwar is our Vice Chairman and Chief Executive Officer and Mr. Kapoor is our President and Chief Financial Officer.

In August 2001, we were acquired by Conseco and operated as its wholly owned subsidiary and in-house business processing service provider for the following 14 months. Through this relationship, we gained a deep understanding of the financial services sector, especially back-office processing functions and debt collections. In November 2002, Messrs. Talwar and Kapoor, Oak Hill Capital Partners L.P., FTVentures and certain members of our senior management team purchased EXL Inc. from Conseco in the 2002 Acquisition and EXL Inc. became our wholly owned subsidiary.

On July 1, 2006, we completed the Inductis Acquisition, which significantly increased the size and scale of our existing research and analytics capabilities and enhanced our ability to deliver services to our clients, introduced our management to a well-diversified base of clients and strengthened and expanded the depth of our management pool, including senior managers with long-term client relationships in key areas of our business.

The BPO Industry

BPO service providers work with clients to develop and deliver business operational improvements with the goal of acheiving 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 in the BFSI sector, in particular, 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.

Demand for offshore BPO services has grown substantially in recent years. The NASSCOM-McKinsey report estimates that the offshore BPO industry will grow at a 37.0% compound annual growth rate, from $11.4 billion in fiscal 2005 to $55.0 billion in fiscal 2010. The report identifies the banking and insurance industries as representing 50% of the potential offshore BPO market and estimates that providers have captured less than 10% of the total opportunity, even in industries that began outsourcing processes early on, such as insurance (life, health, and property and casualty) and retail banking (including deposits and lending, credit cards, mortgages, and loans). The report estimates that India-based companies accounted for 46% of offshore BPO revenue in fiscal 2005 and that India will retain its dominant position as the most favored offshore BPO destination for the foreseeable future. It forecasts that the Indian offshore BPO market will grow from $5.2 billion in revenue in fiscal 2005 to $25.0 billion in fiscal 2010, representing a compound annual growth rate of 36.9%. The main forces driving this growth are the need to control costs and increase operating efficiencies, service capabilities and competitive advantages. Companies also use 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 BFSI, utilities, healthcare, telecommunications and retail. The high cost of servicing a large number of small customer accounts makes outsourcing a compelling strategic alternative for these industries.

The BFSI Sector

The BFSI sector is characterized by intense competition among traditional participants and new entrants, as well as rapid technological innovation. As a result of these challenges, we believe that the BFSI sector is adopting BPO more rapidly than other industries. Organizations in the BFSI sector continue to outsource their key business processes to third parties to reduce costs, improve process quality, handle increased transaction volumes and ensure redundancy. In selecting BPO vendors, the BFSI sector remains focused on vendor responsiveness, customer service and quality and an ability to smoothly transition complex processes and develop customized services.

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

EXL's Competitive Strengths

We believe we have the competitive strengths necessary to maintain and improve our position as a leading provider of BPO services in the BFSI sector. Our key competitive strengths include:

Deep and Comprehensive BPO Processing Experience Within the BFSI Sector

With 85.8% of our pro forma BPO revenues in 2005 derived from the BFSI sector, we have gained a deep understanding of that sector, especially in functions such as loan underwriting support, claims processing, premium research and reconciliation, collections and accounts receivable management. Our expertise stems from our early association with Conseco and has allowed us to provide a full range of services to our clients. Because we believe that the BFSI sector is adopting BPO more rapidly than other industries, we intend to continue to focus on strengthening our capabilities for the BFSI sector and other high-potential sectors (such as healthcare, media and utilities) by developing more complex services for our clients. We believe we are among the first global BPO service providers to have migrated from single or discrete transaction processes to a full range of functional services. We have successfully transferred more than 225 processes covering a broad array of products and services to our operations centers, including policy servicing, research, agency management and premium administration for clients in the life insurance, property and casualty insurance, health insurance and retirement services areas. In addition, we have developed substantial knowledge of the regulatory requirements applicable to the BFSI sector which operate as a significant barrier to new entrants. For example, we are one of the few offshore BPO service providers that can provide third-party administrator insurance services in 43 states of the United States, having been licensed or exempted from, or not subject to, licensing in each of those states. In addition, we are also licensed to operate debt-collection services in all but one state in the United States where such licenses are required, which makes us an attractive service provider to future clients. While the outsourcing industry is highly fragmented, we believe that we are recognized within the industry and among prospective clients as being among a small number of BPO companies that can offer depth of expertise in the BFSI sector. We believe that we are well-positioned to capitalize on the growth in this sector and to leverage the expertise we have gained in this area to steadily broaden and diversify our client base.

Long-term Client Relationships that Result in a High Level of Recurring and Predictable Revenues in Our BPO Business

We have established long-term relationships with our BPO clients for whom we manage a wide variety of processes. A substantial majority of our BPO services are provided under long-term contracts with initial terms ranging from three to seven years. For BPO clients whose processes we have fully migrated, this contract structure provides us with relatively predictable and recurring revenues for a substantial portion of our business, and reduces our sales and marketing costs relative to project-based service providers. Our client relationships typically evolve from providing a single, discrete process into providing a series of complex, integrated processes across multiple business lines.

In 2005, 38.3% of our pro forma revenues were generated by our largest BPO client under two framework agreements. The first framework agreement expires in January 2007 and can be terminated by our client for cause only during its initial term, but work orders under that agreement cannot be terminated without cause before July 1, 2007. The second framework agreement expires in July 2009 and can be terminated by our client without cause upon six months prior notice and payment to us of a break-up fee during its initial term. In 2005, 11.9% of our pro forma revenues were generated by our second-largest BPO client under two main agreements. The first agreement expires on November 1, 2006, is automatically renewable for additional one-year terms and can be terminated by our client at any time and without cause with 30 days prior notice. The second agreement does not have a specified initial term and can be terminated at any time and without cause with 90 days prior notice. Contracts with other BPO clients representing approximately 3.6% of our pro forma revenues in 2005 will expire within 12 months, while the remainder of our BPO contracts expire in more than one year, or do not have specified initial terms and remain in effect until terminated or until there are no work orders or engagement schedules. Our other BPO clients can terminate their contracts without cause during the initial term.

Strong Focus on Process Migration, Operations Management and Process Excellence

Our ability to deliver continuous process improvements and our reputation for superior service have proven to be strong competitive advantages when developing new client relationships. Our success to date reflects our strong focus on operations management and ongoing process improvement. Our process migration expertise, which combines industry knowledge, process and project management techniques and a consultative approach by which our services are tailored to meet the client’s specific needs, has enabled us to successfully transfer more than 225 processes from 22 clients. We have successfully migrated processes on an as-is basis and through re-engineering transformation. We use Six Sigma methodology to identify and eliminate inefficiencies in client and support processes and have created a dedicated team of full-time Six Sigma-trained “black belts” and “green belts," who have substantial expertise in applying the methodology. We have also implemented Kaizen initiatives to solicit and implement process improvements from employees at all levels and to leverage the learning and experiences of each of our employees. In addition, we have developed proprietary tools, including our Process Management and Performance Tracking, or ProMPT, system, to identify and continue to deliver process improvements for our clients, and a Staff Optimization and Forecasting Tool, or SOFT, for effective workforce management of our client processes. We have been awarded ISO 9001:2000 certification for quality assurance and BS7799 certification for information security. We have also received OHSAS 18001 certification for all of our facilities in Noida and Pune recognizing our safety and health management practices.

Robust Human Resources and Technology Infrastructure

Our investment in employee recruitment, training and retention provides us with the ability to rapidly increase the scale of our operations to respond to the needs of our clients. We have invested significant resources in employee recruitment, training and retention, enabling us to grow from approximately 1,800 employees at December 31, 2002 to approximately 7,300 employees at July 1, 2006. Substantially all of our new employees are based in India. We currently have the ability to recruit and train an average of 390 employees per month and believe that the strength of our human resource function will enable us to continue to attract highly qualified and motivated employees, notwithstanding competitive pressures, and to expand our business rapidly as market conditions warrant. Of our employees, 97.1% have college degrees. We believe that our focus on hiring, training and retaining our employees should enable us to continue to deliver high quality services to our clients.

We have also developed an extensive technological infrastructure with a focus on redundancies, scalability and, most importantly, information security. Our locations in India and the United States are connected using a combination of leased domestic and international telecommunications links with redundant capacity. Industry standard network management systems monitor the systems on an uninterrupted 24 hours a day, seven days a week, or "24/7" basis. The robustness of our telecommunications network has allowed us to achieve an average network availability of 99.9% for day-to-day operations.

Experienced Management Team With a Significant Equity Stake

We pride ourselves on the strength and depth of our management and their continued commitment to our ongoing success. With the Inductis Acquisition, we have significantly expanded the depth of our management pool, including senior managers with long-term client relationships in key areas of our business. Our top 31 senior managers at or above the level of vice president have an average of approximately ten years of experience in the BFSI sector and extensive working experience with the business practices of multinational corporations. Vikram Talwar, our Vice Chairman and Chief Executive Officer, co-founded our company after being Chief Executive Officer and Managing Director of Ernst & Young Consulting India and spending 26 years at Bank of America in a variety of senior management roles, including Country Manager in India and other Asian countries. Our other co-founder and current President and Chief Financial Officer, Rohit Kapoor, has over 11 years of experience working with Deutsche Bank and Bank of America in the United States and India. We have a committed management team that has a significant equity stake in our company. 32 members of our senior management team beneficially own 24.3% of our outstanding common stock and will continue to beneficially own % of our outstanding common stock following the consummation of this offering. The incentives that we provided in the Inductis Acquisition, including through earnout and similar contingent payments, are intended to accomplish the same alignment of interests and motivate Inductis management to develop the significant market opportunity in the area of research and analytics.

Business Strategy

Our goal is to become the leading provider of BPO, research and analytics and advisory services in the BFSI sector and other sectors that we believe have significant potential, such as utilities, healthcare and media. Specific elements of our growth strategy include:

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

We expect 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 BPO 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 Services.

In servicing our clients, we seek to differentiate ourselves by emphasizing the broad range of outsourcing services, including BPO, research and analytics and advisory services, that we provide. We believe that clients are increasingly viewing their BPO service providers as long-term partners that provide a full range of service offerings. Our evolving ability to provide services in complementary sectors (such as research and analytics and advisory sectors) will maximize opportunities for more customizing and 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 will also continue to develop additional advisory and related services in order to expand our client base further and migrate clients into our longer-term BPO service offerings.

Expanding Our Client Base

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

Extending Our Industry Expertise

The manner in which we have developed has given us expertise in transferring and servicing more than 210 processes in the BFSI sector. This expertise continues to distinguish us from other offshore providers of BPO services to the BFSI sector and has established our reputation as a leading provider of BPO services. We intend to continue to strengthen our processing capabilities for the BFSI sector and other high-potential sectors by focusing on the more complex and value-enhancing services that are common to these sectors. We have begun to implement this strategy, expanding into the utilities, healthcare and media sectors during 2006. In addition, examples of attractive sectors where we intend to focus our future development include mortgage processing, property lease management for real estate investment trusts and trade sales and processing for investment banks.

Continuing to Focus on Complex Processes

We intend to continue to leverage our industry expertise to provide increasingly more complex services for our clients. As a result of our established and developing industry expertise and knowledge of our clients' businesses and processes, our employees are able to handle processes that are non-routine and that cannot be readily automated or transferred to other parties. Examples of our newest BPO processes include managing insurance receivables, processing total loss claim cases, handling third-party claims cases and processing suspected fraud and high-value claim cases. Our recent research and analytics offerings include tools for evaluating our clients' analytic capabilities, services focused on client acquisition, retention, and attrition modeling and analytics to uncover fraudulent activity in credit and banking. Our newest risk advisory services offerings include accounting due diligence related to corporate acquisitions and operational risk and controls assessment. Our newest process advisory offerings include Six Sigma quality advisory services and BPO opportunity identification related to the merger activities of our clients.

Continuing to Invest in Operational Infrastructure

We will continue to invest in infrastructure, including human resources, process optimization and delivery platforms, to meet our growing client requirements. We will also continue to invest in developing and refining methodologies and analytical models and tools. We intend to further refine and supplement the innovative methods we use to recruit, train and retain our skilled employees. We will continue to focus on recruiting highly qualified employees and to develop our employees' leadership skills through specialized programs, rigorous promotion standards, industry-specific training and competitive compensation packages that include incentive-based compensation. We also intend to continue our focus on process excellence by building on our extensive use of Six Sigma methodology to identify and eliminate inefficiencies, focusing on initiatives to solicit and implement process improvements from employees at all levels and continuing to develop proprietary tools to identify and deliver continued process enhancements. We believe that doing so will enable us to increase the volume of business from our clients and provide value-enhancing services. We recently expanded our facilities in Noida, India, by adding another facility with an installed capacity of 1,000 workstations. In addition, we are contractually committed to one of our clients to establish and maintain a viable offshore BPO operation outside of India by March 2007, either on our own or through a relationship (such as joint venture, partnership or alliance) with other parties where we maintain at least 26% of the controlling interest. This new facility must be capable of providing the services currently being performed for that client in India at a comparable cost to us and must be comparable in size to the existing facility from which the client services are being provided. We are actively looking at a few specific locations. We will evaluate other locations worldwide for further service delivery capabilities based on client preferences and needs, and infrastructure availability.

Pursuing Strategic Relationships and Acquisitions

We will 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 will also selectively consider acquisitions or investments that would expand the scope of our existing services, add new clients or allow us to enter new geographic markets. For example, we recently completed the Inductis Acquisition, which significantly increased the size and scale of our existing research and analytics capabilities and enhanced our ability to deliver strategic services to our clients, introduced our management to a well-diversified base of research and analytics clients and strengthened and deepened our management team.

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

Services

BPO Services

Our BPO services are structured around industry-focused BPO services, such as insurance, banking and financial services and utilities, and cross-industry BPO services, such as finance and accounting services, collection services and customer services.

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

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

Utilities. We provide end-to-end back-office processing for customer operations, including metering-related services and billing, customer transfers and address changes, sales support, account reconciliation and collections. A large part of these services involves complex exception processing.

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

Collection Services. We provide early and mid-stage collection activities, generally using automated dialing systems and our proprietary Exl Collections System (ECS). In addition, we use our proprietary skip-tracing tool to access location information instantly via multiple websites in order to trace people who have moved or absconded without notice to avoid paying debts. We are one of the few vendors in India with experience with a wide range of collection processes, including credit card receivables, large mortgage loan payments and business-to-business insurance premium collections, as well as extensive dialer management experience, both on our proprietary systems and client systems.

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

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

Across the BPO services described above, we have successfully transferred and managed more than 225 processes, including the following:

Insurance Processes

Life Insurance

- *Administration of Insurance Agents*
  Licensing and contracting renewals, terminations, correspondence, commissions and brokerage amounts, debt management, administrating unclaimed monies by insurance agents
- *New Business Processing*
  Prescreening and acquiring new customers, underwriting, underwriting support, delivery requirements follow-up, policy issuance, fund application, refunds, non-sufficient funds, customer inquiries
- *Administration of Current Policies*
  Title and address changes, certificate reissue, endorsement, policy transfers, quotes and reinstatements, loans, exchanges, withdrawals, dividends, surrenders, maturities, direct debit instructions, customer service
- *Premium Administration*
  Application of premium, loan and interest adjustment, daily premium balancing, suspended policy research, payment mode changes, customer correspondence and service
- *Claims Processing*
  Examination, adjudication, settlement, tax compliance and compliance with state laws, customer correspondence and service

Property and Casualty Insurance

- *New Business Processing*
  Sales and conversion, quote acceptance, establishing new policies, policy upgrades, sales of multiple products, indexing
- *Administration of Current Policies*
  Customer service, lapses and renewals, mid-term adjustments, account reconciliations
- *Claims Processing*
  First notification of loss, initial reporting of claims and account initiation, customer service, technical claims, documentation, claims based on third party fault, total loss, scheduling on-site engineers' inspection visits
- *Premium*
  Payment mode changes, collection
- *Broker Collections*
- *Supplier Payments*

Banking and Financial Services Processes

Consumer Finance	Retail Banking and Credit Cards	Mortgage Lending
• Consumer finance processing including verification, tracking and recording • Inbound customer service • Collections • Loan payoff • Telemarketing	• Customer service • Query resolution • Address change request • E-mail response • Collections	• Loan underwriting support • Loan verification • Property tax servicing • New loan set-up • Rate modification • Mortgage customer service • Seller/broker queries • Document management
Utilities	**Finance and Accounting**	**Collections**
• Metering and billing • Accounting • Collections • Customer transfers • Customer address changes • Sales support	• Accounts payable management • Vendor invoice processing • Validation and payment	• Collections from individuals • Collections from businesses • Automated dialing systems • Tracking debtors

Customer Service Processes

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

Research and Analytics Services

In 2005, we started offering research and 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. On July 1, 2006, we acquired Inductis, a research and analytics company serving primarily the financial services and insurance industries. Our research and analytical services access and analyze large volumes of data from multiple sources in order to understand historical performance or behavior or to predict a particular outcome.

Our service lines include analytical consulting, management consulting and analytical services. Analytical consulting and management consulting services include marketing analytics such as customer acquisition and retention, credit risk analytics, customer data integration and fraud detection, marketing strategy, product and service strategy, business process re-engineering, global resource optimization and outsourcing. Analytic services offerings include analytics staff augmentation, lead generation/marketing campaign management, collections services, and primary/secondary research, data management and analysis. Our offerings emphasize our expertise within the financial services and insurance industries, complemented by quantitative modeling techniques and knowledge of relevant technology platforms and business intelligence toolsets.

We deliver these services through a team of industry specialists and graduates with mathematical, statistical, engineering, economics, business or accounting backgrounds. Most of our research and analytical team members have received post-graduate degrees such as a masters degree in business or another quantitative or financial discipline.

Advisory Services, including Business Process-Risk Services and Process Excellence Services

In addition to our BPO services, we provide the following advisory services, which have enabled us to expand our client base and to migrate clients into our longer-term BPO service offerings.

Business Process Risk Services and Internal Controls Services. Our Business Process Risk Services, or EXLBPRS, division provides services and technologies to identify, prioritize and manage our clients' business process risks. Through a core team comprised of more than 75 certified accountants, internal auditors and process and technology experts, our EXLBPRS division provides compliance, technology and risk-management services and makes recommendations to improve existing business processes and controls. The EXLBPRS division also evaluates internal controls and provides internal controls testing services. We believe that clients of our EXLBPRS division may also look to outsource or co-source some of their internal audit functions and seek IT risk management and IT advisory services.

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

Process Re-engineering. We use our Six Sigma improvement methodology and process management expertise to help clients improve their processes. We improve effectiveness and decrease costs for our clients by consolidating, streamlining and re-engineering their processes and platforms, which we believe encourages them to migrate and outsource processes to us.

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

Representative Projects

The following examples illustrate the types of business needs that we address.

U.S. Mortgage Bank

Client**:** A top-ten U.S. mortgage originator in the business of operating as a hybrid thrift/mortgage banker, provides cost-efficient financing for the acquisition, development and improvement of single-family homes. Our client also offers home equity loans and invests in single-family mortgage-related assets. This client was seeking a cost-competitive outsourcing partner with substantial financial services industry knowledge and the ability to meet high quality standards.

Our Approach: We first evaluated the various business processes conducted by the client and the challenges associated with those processes. We then applied our Six Sigma-based process transfer methodology, performed pilot migrations, trained employees in India and implemented quality control processes and process management procedures prior to initiating operations from our facilities.

Services Overview: Since December 2001, we have provided a wide range of services to this client and the services we provide to this client have increased both in volume and complexity. We started with a new customer service process for this client designed to reduce first payment defaults and later also started processing early- and late-stage collections for the client's mortgage loan portfolio. We then began to perform complex processes designed to pre-empt the refinancing of mortgages in a declining interest rate environment by proactively offering rate modifications to existing prime borrowers. The services we now provide to this client include:

- Customer information verification
- Loan processing
- Underwriting conditions
- Collections
- New loan setup audit
- Wire approval diligence
- Seller due diligence
- Document management
- Tax servicing
- Rate modification
- Broker due diligence
- Customer service and loan verification
- Post close audit functions (back-office)
- Post close audit (voice)
- Appraisal processing
- Broker license validation

Selected services that we have helped provide include:

- re-engineering key processes before migrating them to our sites in India, and
- formulating and standardizing desktop procedures for various banking functions.

Growth in Relationship**:** Our relationship with this client has grown from one process to include more than 15 different processes being serviced by over 280 employees. The processes we manage for this client include mortgage origination, mortgage loan collections and mortgage servicing, each of which has been outsourced to us under contracts with initial terms of three years. We are currently in the process of negotiating a renewal of this contract for an additional three-year term. Over 70% of our employees who work for this client are deployed on complex transaction processing activities.

U.K. Insurance Company

Client: One of the largest insurance companies in the world and a leading insurer in the U.K. market. This client sought an alternative to its captive U.K. customer service centers. Our mandate included re-engineering their processes in their automotive, household, commercial and life insurance operations to improve efficiency and productivity.

Our Approach: We formulated a composite project team consisting of EXL and client senior staff and designed and implemented a common project plan with the client. We initially invested in training designed to familiarize our new staff with U.K. culture, basics of general insurance, accent neutralization and financial service market operations in the United Kingdom and obtaining the proper certifications in order to meet industry regulatory requirements. We customized our recruitment strategy to screen candidates for aptitude, cultural adaptability and strong analytical and decision-making skills. We then implemented our Six Sigma-based migration methodology for transferring processes from the client site while complying with U.K. insurance regulatory practices. To ensure a successful transfer, we had client subject matter experts present onsite in India during training and the pilot phases of process migration. To improve performance quality, we solicited feedback from process managers, quality control executives, select-end customers and the client's employees. We continue to implement Six Sigma-based initiatives in this client's processes to improve quality.

Services Overview: We provide a range of insurance BPO services to this client:

New Business Processing

- *Motor*
  Sales, conversion, quote acceptance, cross-selling, establishing new policies, policy upgrades
- *Household*
  Establishing new policies
- *Commercial Insurance*
  Establishing new policies

Administration of Current Policies

- *Motor*
  Customer service, address changes, servicing policy requests, mid-term adjustments, policy lapses and renewals, conversion
- *Household*
  Mid-term adjustments, policy lapses and renewals, conversion
- *Commercial Insurance*
  Mid-term adjustments, policy lapses and renewals
- *Life Insurance*
  Maturities, direct debit instructions, indexing, change of address, customer service

Claims Processing

- *Motor*
  Customer service, claims progress and finalization (including total loss and third party cases), scheduling on-site engineers' inspection visits, claim payments, routing claims to appropriate department
- *Household*
  Initial reporting of claims and account initiation, status checks, customer service, routing claims to appropriate department

Accounting

- *Customer Accounts*
  Direct debit instructions, set up changes and new account processing, cancellations, reconciliation of accounts, correspondence with brokers, underwriters and customers
- *Collections*

Selected services that we helped improve include the following:

- deploying a dialer-based service that improved the answer rate during peak hours while maintaining a constant number of full-time employee equivalents;
- adding services on weekends and developed processes to reduce turnaround and handle times and improve sales conversion percentages, resulting in improved productivity;
- fixing the backlog of outstanding actions required for claim settlement;
- evaluating customer experience metrics that enabled us to understand process performance and customer issues on an ongoing basis;
- improving customer experience and sales conversion rates using Six Sigma methodologies; and
- reducing the pricing cycle time in the client's commercial business line.

Growth in Relationship: We have developed what we consider to be strong and deep customer relationships with this client. We entered into our first outsourcing contract with this client for automotive and household insurance services in March 2003. We have currently deployed over 2,500 employees at two locations in India who are engaged in 36 processes pertaining to this contract (up from about 270 employees engaged in one process deployed in March 2003). In January 2004, we entered into a second outsourcing contract from this client for life insurance services. These contracts had initial terms of three and five years, respectively.

U.K. Utility Service Provider

Client**:** One of the largest utility services providers in the United Kingdom was trying to reduce the high costs of service delivery. As part of its cost-reduction efforts, it was planning to migrate customer accounts from various existing older systems to a new billing system and to outsource exception processing.

Our Approach**:** Over 12 months, we have successfully managed the transition of 11 processes to our Noida and Pune facilities. We utilized our proprietary MOST methodology to manage the transition, and we have recruited and trained over 1,200 professionals to manage this client's processes. We were able to mitigate the challenges that arose from the simultaneous transition of the client to a new billing platform and the transfer of work offshore through the use of a migration methodology. Our process advisory consultants implemented workflow mechanisms in the new environment and enabled remote servicing of this client's processes. By utilizing our professionals across multiple client processes, the risk of volume variation across processes was mitigated and we were able to incorporate service flexibility while meeting key milestones established by the client.

***Services Overview*:** We provide a range of back-office BPO services to this client:

Customer Transfers	Billing and Metering	Customer Moves	Imbalance
• Acquisitions and withdrawals of customers • Disputed meter readings	• Device management • Billing and meter reading management • Payment plans	• Customer move-in and move-out processing • Customer address changes	• Sales Support

In addition to the BPO services discussed above, the client has also utilized some of our other services, including our Six Sigma process advisory services, research and analytics services and business process mapping services. Several of our Six Sigma process improvement services assisted in the deployment of statistical process control mechanisms for this client. Our process improvement services were used to control account imbalances due to unbilled accounts, portfolio mismatch and disputed meter readings. Improvement services were also undertaken to validate and increase the productivity of the client's customer acquisition methods. We also created models for debt transformation and to forecast the volume of activities to be performed through back office processes.

Growth in Relationship: Our relationship with this client has grown from the period of initial contract in July 2005. We have increased the number of full-time employees servicing this client's processes and are servicing additional processes for this client. We are also providing our research and analytics services to this client.

Sales and Marketing

We market our services directly through our sales and marketing team, which operates out of New York and London, and our business development team, which operates out of Noida, India.

Our sales, marketing and business development group is responsible for new client acquisition, client relationship management, public relations and participation in industry forums and conferences in the United States, the United Kingdom and India. Our sales, marketing and business development group identifies 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 sales and marketing professionals operate collaboratively with our business development professionals based in India. Our sales and marketing professionals focus on identifying, qualifying and initiating discussions with prospective clients, while our business development team frames services, prepares responses to requests for proposals, hosts client visits to our facilities and coordinates due diligence investigations into client processes. As of July 1, 2006, we had eight sales and marketing professionals in the United States and four in the United Kingdom. Each member of our sales and marketing team has significant experience in offshore outsourcing and has expertise in identifying outsourcing opportunities and process migration in the BFSI sector. We intend to expand our sales and marketing team to 11 persons in the United States and to five persons in the United Kingdom. Our business development team consists of 11 professionals.

Our sales, marketing and business development group works actively with our service delivery team as the sales process moves closer to the prospective client's selection of a BPO service provider. The account manager or sales executive works with the service delivery team to define the scope, services, assumptions and execution strategies for a 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 over a year.

Members of our sales, marketing and business development group remain actively involved in a project through the execution phase as relationship management representatives. Supporting each relationship manager is a corporate sponsor, executive steering committee, operations leadership team and, in some cases, a dedicated human resources and infrastructure team. Relationship managers are also responsible for business expansion and revenue growth from their accounts.

Clients

We currently have over 50 clients. Our largest clients in 2005, on a pro forma basis, were Norwich Union, American Express and Dell (including Dell Financial Services), which together accounted for approximately 62.8% of our total pro forma revenues in 2005. Other BPO clients include Centrica plc, Indymac Bank, Prudential Financial and a top three U.S. bank. Our advisory clients include Sunterra Resorts, Stanley Tool, United Technologies, Charter Mac, Suntrust Bank and Affirmative Insurance. While we are developing relationships with new clients and expect to continue to diversify our client base, we believe that the loss of any of our largest clients could have a material adverse effect on our financial condition. See "Risk Factors—Risks Related to Our Business—We have a limited number of clients and provide services to few industries. In 2005, 62.8% of our pro forma 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. We enter into long-term agreements with our clients with terms of between typically three and seven years. Each agreement is individually negotiated with the client. We provide services to Norwich Union, which represented $36.4 million, or 38.3%, of our pro forma revenues in 2005, under two framework agreements and work orders generated by these agreements. The first framework agreement expires in January 2007 and can be terminated by our client for cause only during its initial term, but work orders under that agreement cannot be terminated without cause before July 1, 2007. The second framework agreement expires in July 2009 and can be terminated by our client without cause upon six months prior notice and payment to us of a break-up fee during its initial term. After these initial terms, Norwich Union may terminate these agreements without cause or penalty with six months notice. Our agreement with American Express, which represented 12.6% of our pro forma revenues in 2005, provides that American Express may terminate the agreement at any time and without cause with five days prior notice. We provide services to Dell (including Dell Financial Services), which represented 11.9% of our pro forma revenues in 2005, under two main agreements. The first agreement expires on November 1, 2006, is automatically renewable for additional one-year terms and can be terminated by our client at any time and without cause with 30 days prior notice. The second agreement does not have a specified initial term and can be terminated at any time and without cause with 90 days prior notice. BPO contracts with other clients representing approximately 3.6% of our pro forma revenues in 2005 will expire within 12 months. See "Risk Factors—Risks Related to Our Business—Our client contracts contain certain termination provisions that could have an adverse effect on our business and results of operations."

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 tailor to the specific needs of our clients, we enter into contracts with varying terms. For example, under one of our contracts with Norwich Union, Norwich Union has the option beginning in January 2008 and continuing through February 2011 to pay us an amount that will approximate the net asset value of our Pune facilities on the date of transfer and assume the operations of these facilities, together with all of our employees who at that time are working under that contract. See "Certain Relationships and Related Transactions—Agreements with Norwich Union—Option to Purchase Stock of NCOP."

Competition

Competition in the BPO services industry is intense and growing. See "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 and WNS Global Services;
- the BPO divisions of large IT service companies and global BPO services companies located in the United States, such as Accenture, Electronic Data Systems Corp. and International Business Machines; and
- the BPO divisions of IT service companies located in India such as Progeon (owned by Infosys Technologies Limited), Tata Consultancy Services Limited and Wipro BPO (owned by Wipro Technologies Limited).

We compete against these entities by establishing ourselves as a service provider with deep industry expertise in the BFSI sector, which enables us to respond rapidly to market trends and the evolving needs of our clients in this sector, and at a lower cost base than global BPO services companies. See "—Business Strategy—Extending Our Industry Expertise."

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

Intellectual Property

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

Our principal intellectual property consists of proprietary software and the know-how of our management. We have filed several trademark applications, including applications for our logo and mark and for MICROANALYTIX, with the U.S. Patent and Trademark Office. We have filed trademark applications for the "EXL" mark in India and the United States, both of which are pending. In addition, we have filed a trademark application for the INDUCTIS mark in India, which we have also registered as a trademark in the United States. We have four unregistered trademarks: MOST, ECS, ProMPT and SOFT. 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 collections software called ECS, our web-enabled ProMPT system and our SOFT system. ProMPT assists our managers in process management and performance evaluation, including tracking individual performance of agents, team leaders and other employees, and we use SOFT to implement process-oriented workforce management for client operations. We have recently launched a new version of ProMPT, which includes advanced analytics capacity and process control capabilities, and other enhanced features. We consider our business processes and implementation methodologies to be confidential, proprietary information and to include trade secrets that are important to our business. Clients and business partners sign a nondisclosure agreement requiring confidential treatment of our information. Our employees are also required to sign confidentiality agreements as a condition to their employment.

Technology

We have a well-developed international telecommunications capacity to support our BPO, research and analytics and advisory services. We use an international wide area network from India to connect to our points of presence in the United States and the United Kingdom. Our networking and telecommunications hubs are situated in Sunnyvale, California, and New York, New York, providing technology interface locations on the east and west coasts of the United States. Our business continuity management plan includes plans to eliminate certain risks inherent in critical applications by building redundancies and resilience into the connectivity and telecom 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, including AT&T, VSNL, Telstra, Cable & Wireless and British Telecom internationally; Qwest Communications, Broadwing, AT&T and PacBell, in the United States; and VSNL, Bharti, Reliance and Tata Indicom in India. Currently, we have a bandwidth of 26 megabits-per-second, or Mbps, in the United States and over 50 Mbps in the United Kingdom, which we believe is adequate for our business. We have implemented closed user group connectivity across all processing centers and technology hubs which should allow seamless transition from one center to the other in case of an outage.

Our infrastructure is built on industry standards and we work closely with several leading original equipment manufacturers and principal technology partners. The robustness of our telecommunications network has allowed us to achieve an average network availability of 99.9% for day-to-day operations.

We customize our technology solutions in line with our clients' business 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 client's business and outsourcing requirements and its 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 business continuity management plan includes strategies to mitigate certain inherent risks and failures in critical platforms and applications by using a combination of redundancies and resilience in our technology infrastructure, telecom networks and distributed computing, relying on a combination of state-provided and privately-owned power sources, a distribution of work between our multiple service delivery centers and multi-vendor transportation and logistics management. We also employ a dedicated team of trained professionals to help maintain continuity whenever possible.

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. Leveraging from our operational, technological and facilities risk mitigation capabilities, we customize business continuity plans for our key client relationships, including splitting mission-critical processes among center, regional and client locations and working with our client to implement such process operations.

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 British Standards 7799 and ISO 9001:2000, for optimal management of various aspects of information security, including personnel, physical, systems and facility 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 of both our information systems policy and implemented controls.

Currently, four of our service delivery centers are British Standards 7799 certified, and we expect to seek similar certifications in our other service delivery centers.

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 200 quality compliance analysts and customer experience analysts.

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

Employees

As of July 1, 2006, we had approximately 7,300 full-time employees, substantially all of whom are based in India. We have 88 employees in the United States and United Kingdom. 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 and a strong track record in recruiting. We have more than 40 employees devoted to recruiting located throughout India in areas where we expect that our recruitment efforts will be effective. Some of the strategies we have adopted to increase efficiency in our hiring practices include online voice assessment, dedicated recruitment offices across the country and subsidized housing for new employees who travel from neighboring cities to work at our operations centers. Our hiring policies focus on identifying high quality employees who demonstrate a high propensity for learning, contribution to client services and growth. Candidates must undergo numerous tests and interviews before we extend offers for employment. We also conduct extensive background checks on candidates, including criminal background checks. In 2005, we received approximately 36,880 applications for employment and hired approximately 3,681 new professionals. We also have an employee referral program that provides us with a cost effective way of accessing qualified potential employees.

We offer our professionals competitive compensation packages that include significant incentive-based compensation and offer a variety of benefits, including free transport to and from home, subsidized meals, free access to recreational facilities and subsidized housing within close proximity to our operations centers. In the quarter ended June 30, 2006, our turnover rate for billable employees—employees who execute business processes for our clients following the completion of our six month probationary period—was approximately 38%. Our turnover has been declining sequentially for the past four quarters. See "Risk Factors—Risks Related to Our Business—We may fail to attract and retain enough sufficiently trained employees to support our operations, as competition for highly skilled personnel is intense and we experience significant employee turnover rates."

Training and Development

We dedicate significant resources to the training and development of our professionals. We have approximately 200 full-time certified trainers responsible for training our employees. Training works in tandem with recruitment, operations and quality control to create an end-to-end process for value addition, skill evaluation, enhancement and certification. We also use training to provide continuity by linking skill assessment at the point of recruitment to subsequent assessment and on-the-job training.

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

Workforce Management

SOFT is our proprietary platform for implementing process-oriented workforce management for client operations. We customize SOFT to cater to each process' unique requirements, and use SOFT to forecast work volume, schedule resources and management and analyze workforce management.

Properties

Our corporate headquarters are located in New York, New York. We operate six operations centers in India with a current installed capacity of approximately 4,645 agent workstations that operate on an uninterrupted 24/7 basis and are available to be staffed on a three-shift basis. Our networking and telecom hubs are located in Sunnyvale, California and in New York, New York. We lease all of our properties, and each of our leases is renewable at our option. The following table describes each of our material properties and lease expiration dates as of July 1, 2006.

Facility	Location	Space	No. of Agent Workstations	Lease Expiration	Buy Option on Leased Premises
Corporate Headquarters	New York, New York	8,940 sq. ft.	N/A	March 30, 2009	No
Operations Center I	Noida, India	50,000 sq. ft.	681	March 14, 2010 (option to extend until 2015)	No
Operations Center II	Noida, India	39,700 sq. ft.	489	May 17, 2008 (renewable until 2016)	No
Operations Center III (including corporate offices)	Noida, India	68,800 sq. ft.	669	May 7, 2006 (renewable until 2016)	Yes
Operations Center IV-A	Pune, India	42,559 sq. ft. 43,802 sq. ft.	435-Grd. 590-First	July 31, 2013 February 16, 2014	Yes
Operations Center IV-B(1)	Pune, India	61,802 sq. ft. 43,802 sq. ft.	440-5&7 491-6	December 2, 2013 December 31, 2013	Yes
Operations Center V	Noida, India	104,000 sq. ft.	913	August 29, 2010 (option to extend until 2023)	Yes
Gurgaon Facility	Gurgaon, India	20,628 sq. ft.	197	July 2008 (option to extend until 2014)	No

(1) Approximately 105,604 square feet of space (including approximately 1,093 agent workstations) in our Operations Center IV-B are subject to a purchase option held by our client Norwich Union. This option is exercisable at any time commencing in January 2008 until February 2011. See “Certain Relationships and Related Transactions—Agreements with Norwich Union—Option to Purchase Stock of NCOP.”

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

We are contractually committed to one of our clients to establish and maintain a viable offshore BPO operation outside of India by March 2007, either on our own or through a relationship (such as a joint venture, partnership or alliance) with other parties where we maintain at least 26% of the controlling interest. This new facility must be capable of providing the services currently being performed for that client in India at a comparable cost to us and must be comparable in size to the existing facility in which the client services are being provided. We are actively looking at a few specific locations.

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 offshore BPO service providers that can provide TPA insurance services in 43 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 are 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 in all but one state in the United States that have non-exempt requirements and have separate conditional exemptions with respect to our ongoing collection obligations.

Our operations are also subject to compliance with a variety of other laws federal and regulations that apply to certain portions of our business such as the Fair Credit Reporting Act, the Gramm-Leach-Bliley Act, the Health Insurance Portability and Accountability Act of 1996, the Truth in Lending Act, the Fair Credit Billing Act, the Fair Debt Collections Practices Act and FDIC rules and regulations. Our client contracts specify what particular regulatory requirements we must meet in connection with the BPO 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 ten-year tax holiday from Indian corporate income taxes for the operation of most of our Indian facilities, which will expire by location in 2009. As a result of these incentives, our operations have been subject to lower Indian tax liabilities. Our subsidiaries in India are also subject to certain currency transfer restrictions. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Income Tax” and “—Foreign Currency.”

Legal Proceedings

Tax Proceedings

On March 23, 2006, the Indian taxing authorities issued an assessment order with respect to their audit of EXL India’s 2003-04 tax year alleging that the transfer price we applied to transactions between EXL India and EXL Inc. was not appropriate and disallowing certain expenses claimed as tax deductible by EXL India. Indian transfer pricing regulations require that any international transaction involving related corporations be at an arms’ length price. Transactions among our subsidiaries and us may be considered such transactions. This assessment, rectified on May 24, 2006, demands that EXL India pay additional taxes in the amount of 96,796,762 Indian rupees (approximately $2.1 million at the exchange rate in effect on June 30, 2006).

The Indian taxing authorities also recently issued a second assessment order alleging that EXL Inc. has a permanent establishment in India and demanding the payment of additional taxes in the amount of 146,655,473 Indian rupees (approximately $3.2 million at the exchange rate in effect on June 30, 2006). If EXL Inc. were found to have a permanent establishment in India, it would be required to pay Indian taxes on the income deemed attributed to such permanent establishment not only for the 2003-04 tax year but for subsequent years as well.

The Indian tax authorities also initiated proceedings seeking to levy certain penalties in connection with these two assessments.

We are contesting both of these assessments and filed appeals within 30 days of the receipt of these assessments with the Commissioner of Tax Appeals in New Delhi. We have been required to pay a portion of the first assessment before exhausting all our available opportunities to appeal this assessment, and we may be required to pay additional amounts with respect to the first and second assessment. Any amount paid by us will be refunded to us if we succeed in our appeals. We cannot assure you that our appeals will be successful.

In addition, the Indian tax authorities are conducting an audit of our 2004-05 tax year. While no assessments have yet been made in connection with the 2004-05 audit, there can be no assurance that we will not receive additional assessments or be required to pay significant additional taxes with respect to that tax year, or that the Indian taxing authorities will not pursue audits for other tax years.

Any failure of our appeals or further assessments would reduce our profitability and cash flows.

Other Proceedings

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

THE INDUCTIS ACQUISITION

Overview

On July 1, 2006, we acquired Inductis through a merger, as a result of which Inductis became a wholly owned subsidiary of ExlService Holdings pursuant to an Agreement and Plan of Merger, dated June 30, 2006, or the Inductis Acquisition agreement. We estimate that the total consideration for the Inductis Acquisition, including the assumption of liabilities, working capital adjustment, earnout and contingent payments and transaction costs, as further described below, is approximately $31.9 million.

We paid approximately $13.0 million at the closing of the Inductis Acquisition, in the form of $2.4 million in cash, the issuance of 535,918 shares of our Series A common stock (shares of our common stock after giving effect to the Share Conversion), $0.9 million in transaction costs and a $0.4 million bonus payable in January 2007.

We agreed to make certain additional working capital adjustment, earnout and contingent payments to the former holders of Inductis securities as further described below.

We also assumed lines of credit, a term loan and certain other Inductis debt. As of June 30, 2006, an aggregate of $2.5 million was outstanding under the lines of credit and $1.8 million was outstanding under the term loan.

In the merger:

- each outstanding share of Inductis common stock was converted into the right to receive cash and shares of our Series A common stock and the right to receive certain earnout and contingent payments if certain performance conditions are achieved, as further described below;
- holders of Inductis restricted stock received a combination of cash, shares of our Series A common stock, grants of restricted shares of our Series B common stock under our Management Incentive Plan as described below, a cash bonus payable on January 1, 2007 and the right to receive certain earnout and contingent payments if certain performance conditions are achieved, as further described below; and
- holders of unvested options to purchase shares of Inductis common stock received cash, grants of restricted shares of our Series B common stock under our Management Incentive Plan and a cash bonus payable on January 1, 2007.

As part of our management incentives, we granted 85,461 restricted shares of our Series B common stock (shares of our common stock after giving effect to the Share Conversion), subject to certain vesting requirements, under our Management Incentive Plan to the holders of Inductis common stock, restricted stock and unvested options. Of the 85,461 restricted shares of Series B common stock granted in the Inductis Acquisition, 54,319 shares (shares of our common stock after giving effect to the Share Conversion) are subject to vesting over two or three years. The remaining 31,142 shares (shares of our common stock after giving effect to the Share Conversion) will vest or be forfeited based upon our attainment of the earnout and contingent payment targets for the historic Inductis business in 2006 and 2007 described below. If we do not attain the minimum thresholds for such earnout or contingent payments, certain of these restricted shares of Series B common stock will be forfeited by the recipients thereof. See “Management—Management Incentive Plan” for a more complete discussion regarding the terms of the restricted shares of our Series B common stock issued in connection with the Inductis Acquisition.

Working Capital Adjustment

The purchase price in the Inductis Acquisition is subject to a working capital adjustment based on the net working capital of Inductis and its subsidiaries as of June 30, 2006. Net working capital means all current consolidated assets of Inductis and its subsidiaries, as determined in accordance with GAAP, less all current liabilities and all current and long-term debt of Inductis and its subsidiaries, as determined in accordance with GAAP. Based on net working capital at June 30, 2006, we are required to pay approximately $0.5 million as additional consideration to the former holders of Inductis securities in the form of cash.

Earnout Payments

Former holders of Inductis common stock and restricted stock may also be entitled to receive additional shares of our Series A common stock (and the 31,142 restricted shares of Series B common stock will vest or be forfeited) based on Inductis' revenues and profit margins (determined in accordance with the provisions of the Inductis Acquisition agreement) in 2006 and 2007 as follows:

If Inductis' profit adjusted earnout revenue (which amount is defined in the Inductis Acquisition agreement to equal either its revenue or a lower amount if certain profit margin targets are not achieved as set forth in the Inductis Acquisition agreement) is equal to or exceeds $28.0 million during fiscal year 2006, the former holders of Inductis common stock and restricted stock will be entitled to receive an aggregate of 194,953 shares of our Series A common stock (shares of our common stock after giving effect to the Share Conversion). If its profit adjusted earnout revenue is between $25.2 million and $28.0 million during fiscal year 2006, the former holders of Inductis common stock and restricted stock will be entitled to receive a number of shares of our Series A common stock ranging from 64,334 shares (shares of our common stock after giving effect to the Share Conversion) to, but not including, 194,953 shares (shares of our common stock after giving effect to the Share Conversion), with the actual number determined pursuant to a formula set forth in the Inductis Acquisition agreement. If Inductis' profit adjusted earnout revenue is less than $25.2 million during fiscal year 2006, the former holders of Inductis common stock and restricted stock will receive no shares of common stock with respect to fiscal year 2006, subject to a possible "catch-up" opportunity based on the results for fiscal year 2007, as described below.

If Inductis' profit adjusted earnout revenue is equal to or exceeds $35.0 million during fiscal year 2007, the former holders of Inductis common stock and restricted stock will be entitled to receive an aggregate of 194,953 shares of our Series A common stock (shares of our common stock after giving effect to the Share Conversion). If its profit adjusted earnout revenue is between $31.5 million and $35.0 million during fiscal year 2007, the former holders of Inductis common stock and restricted stock will be entitled to receive a number of shares of our common stock ranging from 64,334 shares (shares of our common stock after giving effect to the Share Conversion) to, but not including, 194,953 shares (shares of our common stock after giving effect to the Share Conversion), with the actual number determined pursuant to a formula set forth in the Inductis Acquisition agreement. If Inductis' profit adjusted earnout revenue is less than $31.5 million during fiscal year 2007, the former holders of Inductis common stock and restricted stock will receive no shares of common stock with respect to fiscal year 2007.

In addition, if Inductis' profit adjusted earnout revenue does not equal or exceed $28.0 million in fiscal year 2006 and its profit adjusted earnout revenue for fiscal year 2007 exceeds $35.0 million, then the amount by which its profit adjusted earnout revenue in fiscal year 2007 exceeds $35.0 million will be added to its profit adjusted earnout revenue for fiscal year 2006, the earnout calculation for such year will be recalculated and any additional shares issuable to the former holders of Inductis common stock and restricted stock pursuant to such recalculation will be issued.

Under no circumstances will more than an aggregate of 389,906 shares of our Series A common stock (shares of our common stock after giving effect to the Share Conversion) be issued to the former holders of Inductis common stock and restricted stock under these earnout provisions.

Contingent Payments

If Inductis' profit adjusted upside revenue (which amount is defined in the Inductis Acquisition agreement to equal either its profit margin in fiscal year 2007 or a lower amount if certain profit margin targets are not achieved as set forth in the Inductis Acquisition agreement) in fiscal year 2007 is equal to or greater than $42.0 million but less than $49.0 million, former holders of Inductis common stock and restricted stock will also be entitled to an aggregate payment ranging from approximately $0.6 million to approximately $6.5 million depending on Inductis' profit adjusted upside revenue. An aggregate payment of $6.5 million will be due if its profit adjusted upside revenue equals or exceeds $49.0 million. The payment, if any, will be made in cash, in shares of our common stock valued at the average price of our common stock during the ten trading days following our announcement of financial results for fiscal year 2007 or a combination of cash and shares, the mix of which cannot be determined until the size of the contingent payments, if any, is determined. However, no upside payment will be due if 77% or fewer of the employees of Inductis and its subsidiaries are employed outside the United States or if 62% or more of Inductis' consolidated revenues, other than revenues from analytics services, in fiscal year 2007 are from two specified clients.

Indemnification

Subject to certain limited exceptions identified below, the representations, warranties and covenants of Inductis, the former holders of Inductis common stock and the Company will survive the closing for one year. Representations and warranties of Inductis, the former holders of Inductis common stock and the Company relating to capitalization and stock ownership, authority, liabilities, iTouchpoint Technologies LLC, or iTouchpoint, brokers, certain statutes of Delaware law, and capitalization will survive without limitation. Representations and warranties relating to tax and ERISA matters will survive until 60 days after the expiration of the applicable statute of limitations. Representations and warranties of the Company in any case will terminate upon this offering, except with regard to matters for which a claims notice was received by us prior to such consummation date. In addition the former holders of Inductis have agreed to indemnify us for any losses we incur: (i) relating to iTouchpoint or the Inductis-terminated asset purchase agreement to acquire iTouchpoint; (ii) arising from the breach or nonperformance of representations, warranties, covenants or obligations of Inductis in connection with the Inductis Acquisition; or (iii) relating to any claims made against us by a former holder of Inductis common stock that are not related to any non-performance by us of our obligations under the Inductis Acquisition agreement. We have agreed to indemnify the former holders of Inductis common stock for any losses they incur relating to a breach by us of any of our representations, warranties or covenants under the Inductis Acquisition agreement.

The indemnification obligations of the former holders of Inductis common stock are generally subject to an aggregate deductible amount ($200,000), a maximum aggregate amount of $5.0 million plus 50% of any earnout payment and certain other limitations. The maximum aggregate amount will not apply to certain representations, warranties and covenants such as those relating to ownership, authority, tax, ERISA matters and iTouchpoint.

Company Holder Agreement

As part of the Inductis Acquisition, each former holder of Inductis common stock who received shares of our Series A common stock entered into a Company Holder Agreement with us. The Company Holder Agreements prohibit these former holders of Inductis common stock from transferring the shares of Series A common stock they received as part of the Inductis Acquisition for a three-year period commencing July 1, 2006, with such transfer restrictions expiring each year with regard to one-third of such shares held by each such former holder of Inductis common stock. However, former holders of Inductis common stock are released from these transfer restrictions upon a change of control of the ExlService Holdings, if the holder becomes disabled or if the holder's employment with us is terminated by us without "cause" or by the holder for "good reason." Furthermore, if either Mr. Talwar or Mr. Kapoor sells in excess of 33% of their shares of our Series A common stock prior to June 30, 2008 or in excess of 66% of their shares of our Series A common stock prior to June 30, 2009, then the former holders of Inductis common stock may sell an additional percentage of their shares equal to the percentage that either Mr. Talwar or Mr. Kapoor sold above 33% or 66%, as applicable.

In addition, the Company Holder Agreements prohibit the former holders of Inductis common stock from transferring any shares of Series A common stock received pursuant to the earnout provisions of the Inductis Acquisition agreement for a period of 12 months from the date of issuance of such shares. However, former holders of Inductis common stock are released from these transfer restrictions upon a change of control (as defined in the Company Holder Agreements) of the ExlService Holdings, if the holder becomes disabled or if the holder's employment with us is terminated by us without "cause" or by the holder for "good reason."

MANAGEMENT

Directors and Executive Officers

The following table sets forth information regarding our directors and executive officers:

Name	Age	Position
Vikram Talwar	57	Chief Executive Officer and Vice Chairman of the Company
Rohit Kapoor	42	President, Chief Financial Officer and Director of the Company
Pavan Bagai	44	Vice President, Head of Operations of EXL India
Vikas Bhalla	35	Vice President, Operations of EXL India
Deepak Dhawan	53	Vice President, Human Resources of EXL India
Sanjay Gupta	46	Vice President, Operations of EXL India
Narasimha Kini	38	Vice President, Advisory Services of EXL India
Sandeep Tyagi	37	Vice President, Head of Knowledge Services of the Company
Amit Shashank	36	Vice President, General Counsel of EXL Inc. and Corporate Secretary of the Company
Steven B. Gruber	49	Chairman of the Board of Directors of the Company
Bradford E. Bernstein	39	Director of the Company
Edward V. Dardani	44	Director of the Company
James C. Hale, III	54	Director of the Company
David B. Kelso	54	Director of the Company
Dr. Mohanbir Sawhney	42	Director of the Company
Garen K. Staglin	61	Director of the Company

Vikram Talwar co-founded EXL Inc. in April 1999 and has served as our Chief Executive Officer and Vice Chairman of our board of directors since November 2002 and as Chief Executive Officer of EXL Inc. since April 1999. Prior to founding EXL Inc., Mr. Talwar served in various capacities at Bank of America including Country Manager in India and other Asian countries from 1970 to 1996 and served as Chief Executive Officer and Managing Director of Ernst & Young Consulting India from 1998 to 1999.

Rohit Kapoor co-founded EXL Inc. in April 1999 and has served as our President and director since November 2002, as our Chief Financial Officer from November 2002 until June 2005 and since August 2006, and as President and Chief Financial Officer of EXL Inc. since August 2000. Prior to founding EXL Inc., Mr. Kapoor served as a business head of Deutsche Bank from July 1999 to July 2000. From 1991 to 2000, Mr. Kapoor served in various capacities at Bank of America in the United States and Asia, including India.

Pavan Bagai has served as Vice President, Head of Operations of EXL India since June 2006. He previously served as Vice President, Strategic Business of EXL India from December 2004 to May 2006, as Vice President and Head of Operations of EXL India from November 2003 to November 2004 and as Vice President, Operations of EXL India from July 2002 to November 2003. From 1985 until joining EXL India, Mr. Bagai served in various capacities in several key business areas at the Bank of America, including corporate banking, finance, capital markets and trading in various markets across Asia and Europe, including India.

Vikas Bhalla has served as Vice President, Operations of EXL India since June 2006. He previously served as Vice President, Migrations, Quality and Process Excellence of EXL India from April 2002 to June 2006 and as Director Quality Initiatives of EXL India from May 2001 to March 2002. From May 1998 to May 2001, Mr. Bhalla served in various capacities at General Electric, including as the Quality Leader and E-Business Leader for GE Plastics India.

Deepak Dhawan has served as Vice President, Human Resources of EXL India since June 2002. Mr. Dhawan served in various capacities at Eicher Goodearth Ltd., an automobile and engineering company, from June 1994 to June 2002, including as Executive Vice President Human Resource & Strategic Planning and has over 25 years of management experience in industrial relations, personnel and training.

Sanjay Gupta has served as Vice President, Operations of EXL India since October 2001. He has also served as Director of Operations at EXL India from November 2000 to September 2001. Mr Gupta served in various capacities at American Express India from May 1995 to October 2001. Mr. Gupta is a chartered accountant and spent over eight years in various companies in India.

Narasimha Kini has served as Vice President, Advisory Services for EXL India since July 2004. He was Head Internal Controls of EXL India from April 2001 to December 2003. Before joining us, Mr. Kini served as Finance Manager at Al-Futtaim Wills Faber (Pvt) Ltd, an insurance broker and consulting company, from July 1999 to January 2001.

Sandeep Tyagi has served as Vice President, Head of Knowledge Services of the Company since June 2006. Mr. Tyagi founded Inductis in 2000 and served as its Managing Principal prior to June 2006. Prior to that, Mr. Tyagi worked at Mitchell Madison Group, or MMG, a strategy consulting firm that spun out from another consulting firm, A.T. Kearney. Mr. Tyagi served in various positions at MMG from 1994 until December 1998, when he became a partner at MMG.

Amit Shashank has served as General Counsel and Vice President of EXL Inc. since June 2004. Mr. Shashank also serves as Corporate Secretary of the Company. Prior to joining EXL Inc., Mr. Shashank was an attorney with the law firm of Shearman & Sterling LLP from January 1997 until June 2004.

Steven B. Gruber has served as Chairman of our board of directors since November 2002. Since February 1999, Mr. Gruber has been a Managing Partner of Oak Hill Capital Management, Inc., the investment advisor to Oak Hill Capital Partners, L.P., one of our 5% stockholders. Since April 1990, Mr. Gruber has been a Managing Director of Oak Hill Partners, Inc. (including its predecessor entities) and the Manager of Acadia Partners, L.P. Additionally, since February 1994, he has been a Managing Partner of Insurance Partners Advisors L.P. Mr. Gruber serves on the boards of directors of American Skiing Company, Blackboard Inc. and Williams Scotsman International, Inc.

Bradford E. Bernstein has served as a director since November 2002. Since May 2003, Mr. Bernstein has been a Partner at FTVentures. From 1999 to 2003, Mr. Bernstein was a Partner at Oak Hill Capital Management, Inc., the investment advisor to Oak Hill Capital Partners, L.P., one of our 5% stockholders. From 1992 to 1999, Mr. Bernstein served in various capacities, including as a Managing Director, at Oak Hill Partners, Inc.

Edward V. Dardani has served as a member of our board of directors since April 2005. Mr. Dardani is a Principal of Oak Hill Capital Management, Inc., the investment advisor to Oak Hill Capital Partners, L.P., one of our 5% stockholders, which he joined in 2002. Mr. Dardani is responsible for investments in business and financial services sectors. Prior to joining Oak Hill, he was a partner at DB Capital Partners and a management consultant at McKinsey & Co. from 1992 to 1996. Mr. Dardani began his career at Merrill Lynch in their investment banking group. Mr. Dardani serves on the board of directors of American Skiing Company.

James C. Hale, III has served as a director since November 2002. Since July 1998, Mr. Hale has served as a General Partner and Managing Member of FTVentures, a venture capital firm and one of our 5% stockholders. Prior to joining FTVentures, Mr. Hale served in various capacities at Montgomery Securities from 1982 to 1998, and most recently as Senior Managing Director and Director of Financial Technology of Montgomery Securities.

David B. Kelso has served as a director since July 2006. Mr. Kelso most recently served as a senior advisor to Inductis from June 2004 through June 2006. He served in the Office of the Chairman as Executive Vice President for Strategy and Finance for Aetna, Inc. from September 2001 through September 2003 and as Executive Vice President and Chief Financial Officer for Chubb Corporation from June 1996 through August 2001. Mr. Kelso served on the board of director of Aetna Life Insurance Company from 2001 to 2003. In 2003, Mr. Kelso founded Kelso Advisory Services and serves as its Managing Director. Mr. Kelso serves on the board of directors of Aspen Holdings, Ltd.

Dr. Mohanbir Sawhney has served as a member of our board of directors since November 2005. Dr. Sawhney is a recognized author, scholar and consultant on marketing and e-business and has been the McCormick Tribune Professor of Technology and the Director of the Center for Research in Technology & Innovation at the Kellogg School of Management, Northwestern University, since September 1993. Dr. Sawhney is also a Fellow of the World Economic Forum.

Garen K. Staglin has served as a member of our board of directors since June 2005. Mr. Staglin has over 35 years of experience in the financial services and technology industries. Mr. Staglin was a Director of First Data Corporation, a credit card and financial services processing company, from 1992 to 2002 and was Chief Executive Officer of eONE Global LP, an emerging payments company, from 2001 to 2004. Mr. Staglin was Chairman and Chief Executive Officer of Safelite Glass Corporation, a manufacturer and retailer of replacement autoglass and related insurance services from 1993 to 1999. Prior to joining Safelite, Mr. Staglin was President of ADP Automotive Claims Services, a provider of auto claims estimating software and services, from 1979 to 1990. Mr. Staglin serves as a director of Global Document Solutions, Inc., a digital printing, imaging and customer relationship management outsourcing company, and Solera, Inc., a consulting, outsourced services and technology provider focused on auto claims solutions. Mr. Staglin is a senior advisor for FT Ventures, one of our 5% stockholders. Mr. Staglin recently joined the Advisory Board of the Cambridge University Business School in the United Kingdom.

Board Structure and Compensation

Composition of our Board of Directors

Our board of directors currently consists of nine directors. This offering is conditioned upon us amending and restating our charter and by-laws prior to its consummation. Our amended and restated by-laws will provide that our board of directors will consist of no less than   or more than   persons. The exact number of members on our board of directors will be determined from time to time by resolution of a majority of our full board of directors. Upon consummation of this offering, our board will be divided into three classes as described below, with each director serving a three-year term and one class being elected at each year's annual meeting of stockholders. Messrs.   will serve initially as Class I directors (with a term expiring in 2007). Messrs.   will serve initially as Class II directors (with a term expiring in 2008). Messrs.   will serve initially as Class III directors (with a term expiring in 2009).

Committees of the Board

Upon consummation of this offering, our board of directors will have three standing committees: an Audit Committee, a Compensation Committee and a Nominating and Governance Committee. We will be required to have one independent director on each of these committees during the 90-day period beginning on the date of effectiveness of the registration statement filed with the Commission in connection with this offering and of which this prospectus is a part. After such 90-day period and until one year from the date of effectiveness of the registration statement, we are required to have a majority of independent directors on each of these committees. Thereafter, each of these committees is required to be comprised entirely of independent directors. The following is a brief description of our committees.

Audit Committee. Our Audit Committee assists the board in monitoring the audit of our financial statements, our independent auditors' qualifications and independence, the performance of our audit function and independent auditors, and our compliance with legal and regulatory requirements. The Audit Committee has direct responsibility for the appointment, compensation, retention (including termination) and oversight of our independent auditors, and our independent auditors report directly to the Audit Committee. The Audit Committee will also review and approve related-party transactions as required by the rules of the Nasdaq Stock Market.

Messrs. , , and are expected to be the members of our Audit Committee upon consummation of this offering. Mr. qualifies as an audit committee financial expert under the rules of the Commission implementing Section 407 of the Sarbanes-Oxley Act of 2002. Each of the members of our Audit Committee meets the independence and the experience requirements of the Nasdaq Stock Market and the federal securities laws.

Compensation Committee. Our Compensation Committee reviews and recommends policies relating to compensation and benefits of our directors and employees and is responsible for approving the compensation of our Chief Executive Officer and other executive officers. Our Compensation Committee also administers the issuance of awards under our equity incentive plans. The Compensation Committee is also responsible for producing the annual report on executive compensation required to be included in our annual proxy materials under federal securities laws. Messrs. , and are expected to be the members of our Compensation Committee upon consummation of this offering and meet the independence requirements of the Nasdaq Stock Market and the federal securities laws.

Nominating and Governance Committee. Our Nominating and Governance Committee selects or recommends that the board select candidates for election to our board of directors and develops and recommends to the board of directors corporate governance guidelines that are applicable to us and oversees board of directors and management evaluations. Messrs. , and are expected to be the members of our Nominating and Governance Committee upon consummation of this offering and meet the independence requirements of the Nasdaq Stock Market and the federal securities laws.

Compensation Committee lnterlocks and Insider Participation

None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers who serve on our board of directors or compensation committee.

Directors' Compensation

The compensation arrangements described below will apply following the consummation of this offering. Directors who are not executive officers will receive an annual fee of $20,000. The Chairman of our board of directors will receive an annual fee of $25,000. In addition, directors who are not executive officers will receive a fee of $2,000 for each board meeting they attend ($1,000 if they attend telephonically) and a fee of $1,000 for each committee meeting they attend ($500 if they attend telephonically). Directors will be reimbursed for out-of-pocket expenses incurred in connection with attending meetings of the board of directors and its committees. In addition, directors who are not executive officers will receive one-time grants of options to purchase shares of our common stock which vest ratably over four years and restricted stock units under our 2006 Omnibus Award Plan.

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Advisory Board

We have established an advisory board whose function is to provide senior management with advice on strategic direction and business development initiatives. Our advisory board does not constitute a part of our corporate governance structure and is currently composed of Messrs. John Ainley, Allen J. Gula and Dennis R. Sheehan. Members of our advisory board are appointed from time to time by our senior management.

John Ainley is the Human Resources Director of Aviva Group and the Chairman of Aviva Offshore Services. Before joining Aviva in 1999, Mr. Ainley held senior international human resources positions in several international organizations across diverse industries such as retailing, internet technologies and healthcare. Over the past six years, Mr. Ainley has held various positions at Aviva, including Human Resources Director for Norwich Union Insurance and Human Resources Director for Norwich Union Life. Norwich Union is a subsidiary of Aviva Group.

Allen J. Gula, Jr. serves as an Advisor to the co-Chief Executive Officers of Franklin Resources, a global asset management company. From August 1999 to July 2002, Mr. Gula served as the Co-President and Chief Information Officer of Franklin Resources. Prior to August 1999, he was an Executive Vice President at KeyCorp and Chairman/Chief Executive Officer for Key Services Corporation. In addition, Mr. Gula is a director and advisory board member of several privately held companies.

Dennis R. Sheehan is a senior advisor to Financial Technology Ventures and an adjunct professor at the graduate school of Adelphi University. Until January 2004, Mr. Sheehan served as the President and Chief Executive Officer and a member of the Board of Directors of The BISYS Group, Inc. Since joining BISYS in 1995, Mr. Sheehan has also held other leadership positions, including Senior Vice President of Finance, Executive Vice President, Chief Financial Officer, President and Chief Operating Officer. While Chief Executive Officer of BISYS, he also served on the Listed Company Advisory Committee to the New York Stock Exchange. Prior to joining BISYS Mr. Sheehan was Executive Vice President and Chief Financial Officer for Concord Holding Corporation. During his tenure at Concord Holding, the company completed its initial public offering and was acquired by BISYS. Mr. Sheehan has also held several senior management positions with The Equitable Life Assurance Corporation, including President and Chief Executive Officer of Equico Securities, and Chief Financial Officer of the Asset Management Group for PaineWebber. Prior to this, he worked with SCM Corporation and KPMG Peat Marwick.

Each member of the advisory board has received options to purchase 5,000 shares in the aggregate of our Series B common stock (shares of our common stock after giving effect to the Share Conversion) under our equity incentive plans.

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Executive Compensation

Summary Compensation Table

The following table sets forth the cash and non-cash compensation paid by or incurred on our behalf to our Chief Executive Officer and four other most highly compensated executive officers, or the named executive officers, during our last three fiscal years.

	Annual Compensation				Long-Term Compensation Awards		
Name and Principal Position	Year	Salary($)	Bonus($)	Other Annual($)(1)	Restricted Stock($)	Number of Securities Underlying Options/ SARs(#)	All Other Compensation($)
Vikram Talwar(2)	2005	400,000	—	127,626	—	—	8,092(3)
Chief Executive Officer	2004	393,750	300,000	122,122	—	—	6,274
	2003	312,499	175,000	99,811	—	—	1,653
Rohit Kapoor(2)	2005	400,000	—	53,722	—	—	7,158(3)
President	2004	393,750	300,000	44,977	—	—	6,093
	2003	312,499	175,000	44,735	—	—	1,653
Shiv Kumar(4)	2005	161,410	45,000	—	—	—	6,300(5)
Chief Sales and Marketing Officer	2004	166,667	75,000	—	—	30,000	5,000(5)
Katy Murray(6)	2005	151,667	30,000	—	—	120,000	—
Chief Financial Officer							
Amit Shashank(7)	2005	233,154	26,500	—	—	20,000	7,000(5)
General Counsel	2004	125,256	50,000	—	—	30,000	3,250(5)

(1) With regard to Mr. Talwar, these amounts consist of expenses relating to personal travel for Mr. Talwar and his family ($30,433 in 2003, $38,857 in 2004 and $36,236 in 2005), automobile allowance, automobile insurance, personal security protection in India, social club fees, home office equipment and furnishings and reimbursement of fees relating to personal tax advice. With regard to Mr. Kapoor, these amounts consist of expenses relating to personal travel for Mr. Kapoor and his family ($19,754 in 2003, $22,783 in 2004 and $25,633 in 2005), automobile allowance and expenses and automobile insurance.

(2) While the employment agreements of Messrs. Talwar and Kapoor provide for a contractual bonus of $100,000, our board of directors agreed to grant Messrs. Talwar and Kapoor additional bonuses in 2003 and 2004 as a result of our performance in 2003 and 2004.

(3) For 2005, includes an employer contribution of $6,300 for Mr. Talwar to our 401(k) plan and payment of $1,792 in insurance premiums for term life insurance. For 2005, includes an employer contribution of $6,300 for Mr. Kapoor to our 401(k) plan and payment of $850 in insurance premiums for term life insurance.

(4) Mr. Kumar joined the Company in March 2004 and resigned from the Company on June 30, 2006.

(5) Reflects an employer contribution of $5,000 in 2004 and $6,300 in 2005 for Mr. Kumar and of $3,250 in 2004 and $7,000 in 2005 for Mr. Shashank to our 401(k) plan.

(6) Ms. Murray joined the Company in June 2005.

(7) Mr. Shashank joined the Company in June 2004.

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Options/SAR Grants in Last Fiscal Year

The following table provides information on option grants in 2005 to our named executive officers under our equity incentive plans.

		Individual Grants			
Name	Number of Securities Underlying Options/SARs Granted(#)(2)	% of Total Options/SARs Granted to Employees in 2005	Exercise or Base Price Per Share($)	Expiration Date	Grant Date Present Value ($)(1)
Vikram Talwar	—	—	—	—	—
Rohit Kapoor	—	—	—	—	—
Shiv Kumar	—	—	—	—	—
Katy Murray	120,000(3)	43.2%	$ 23.75	06/01/2015	649,200
Amit Shashank	20,000(3)	7.2%	$ 23.75	06/01/2015	108,200

(1) Based on the Black-Scholes option pricing model as of the grant date of the option, assuming an expected life of 60 months, a risk-free interest rate of 4.25%, a 50.0% volatility and a 0.0% dividend yield.

(2) The options vest and become exercisable ratably over a four-year period. The first 25% of the options vest on the first anniversary of the date of grant, and an additional 25% of the options vest on each subsequent anniversary. On a change in control (as defined in our 2006 Omnibus Award Plan), the executives will each receive an additional year of vesting credit for purposes of determining the portion of the executives' options which are vested and exercisable. In addition, each executive's options become fully vested and exercisable if, following or in specific contemplation of a change in control, the executive is terminated without cause or voluntarily departs for good reason (each as defined in the executive's employment letter or option agreement, as applicable).

(3) The fair market value of our common stock on the grant date of these options, June 1, 2005, was $15.20 per share.

Aggregated Options/SAR Exercises and Value in Last Fiscal Year

The following sets forth, for each named executive officer, aggregate exercises of options to purchase our common stock in 2005:

			Number of Securities Underlying Unexercised Options at Fiscal Year-End(#)		Dollar Value of Unexercised In-the-Money Options at Fiscal Year-End($)(1)	
Name	Number of Shares Underlying Options Exercised(#)	Dollar Value Realized($)	Exercisable	Nonexercisable	Exercisable	Nonexercisable
Vikram Talwar	—	—	—	—	—	—
Rohit Kapoor	—	—	—	—	—	—
Shiv Kumar	—	—	7,500	22,500	74,250	222,750
Katy Murray	—	—	—	120,000	—	—
Amit Shashank	—	—	7,500	42,500	—	—

(1) Calculated using the fair market value of $17.40 per share of our common stock on December 31, 2005 minus the option exercise price.

Employment Agreements

Vikram Talwar. We entered into an employment agreement with Mr. Talwar in November 2002 which was extended to September 30, 2006 and provides that Mr. Talwar serves as our Chief Executive Officer and Vice Chairman. We are negotiating a new employment agreement with Mr. Talwar. We expect that under the terms of his new employment agreement, Mr. Talwar will have such powers, duties and responsibilities as are generally associated with the position of Chief Executive Officer, as may be modified or assigned by our board of directors and subject to the supervision of our board of directors. Mr. Talwar will also serve as Vice Chairman of our board of directors during the term of his employment except under specific circumstances.

Under Mr. Talwar's current employment agreement, Mr. Talwar receives a base salary of $400,000. He is eligible for an annual bonus of $100,000 based upon our attainment of certain financial targets. We also provide Mr. Talwar with certain benefits, including once-a-year airfare between the United States and India for Mr. Talwar and his family, a term life insurance policy with a face value of $500,000, an automobile in the United States and India, personal security, certain club memberships up to $3,500 per year and certain furniture and equipment for home offices in India and in the United States. In addition, we reimburse Mr. Talwar on account of the taxes he pays in excess of his U.S. tax liability as a result of his relocation to India at our request and consequent incurrence of tax liability.

If Mr. Talwar's employment is terminated either by us without cause (as defined in his employment agreement) or by Mr. Talwar for good reason (as defined in his employment agreement, which definition includes a change of control of us), he will be entitled to receive severance consisting of his earned but unpaid base salary, bonuses and benefits through the date of termination, including a pro rata portion of his bonus for the year of termination; continued payment of his base salary for a period of two years following the date of termination in accordance with our payroll practices; and continuation of his benefits for a period of no greater than two years following the date of termination. Benefit participation will cease if and when Mr. Talwar commences new employment before the expiration of two years.

If Mr. Talwar becomes disabled, he will be entitled to receive his earned but unpaid base salary, bonuses and benefits through the date of termination, including a pro rata portion of his bonus for the year of termination; his base salary for a period of three months following the termination date (as reduced by any disability insurance benefits paid to him during that period); and continued benefits for a period of three months following the termination date (if permitted by our benefit plans and applicable law).

Rohit Kapoor. We entered into an employment agreement with Mr. Kapoor in November 2002 which was extended to September 30, 2006 and provides that Mr. Kapoor serves as our President. We are negotiating a new employment agreement with Mr. Kapoor. We expect that under the terms of his new employment agreement, Mr. Kapoor will have such powers, duties and responsibilities as are generally associated with the position of President as may be modified or assigned by our board of directors and subject to the supervision of our board of directors. Mr. Kapoor will also serve as a member of our board of directors during the term of his employment agreement except under specific circumstances.

Under Mr. Kapoor's employment agreement, Mr. Kapoor receives a base salary of $400,000. He is eligible for an annual bonus of $100,000 based upon our attainment of certain financial targets. We also provide Mr. Kapoor with certain benefits, including once-a-year airfare between the United States and India for Mr. Kapoor and his family, a term life insurance policy with a face value of $500,000, an automobile in the United States and India, personal security and certain furniture and equipment for home offices in India and in the United States.

If Mr. Kapoor's employment is terminated either by us without cause (as defined in his employment agreement) or by Mr. Kapoor for good reason (as defined in his employment agreement, which definition includes a change of control of us), he will be entitled to receive severance consisting of his earned but unpaid base salary, bonuses and benefits through the date of termination, including a pro rata portion of his bonus for the year of termination; continued payment of his base salary for a period of two years following the date of termination in accordance with our payroll practices; and continuation of his benefits for a period of no greater than two years following the date of termination. Benefit participation will cease if and when Mr. Kapoor commences new employment before the expiration of two years.

If Mr. Kapoor becomes disabled, he will be entitled to receive his earned but unpaid base salary, bonuses and benefits through the date of termination, including a pro rata portion of his bonus for the year of termination; his base salary for a period of three months following the termination date (as reduced by any disability insurance benefits paid to him during that period); and continued benefits for a period of three months following the termination date (if permitted by our benefit plans and applicable law).

Katy Murray, Amit Shashank and Shiv Kumar. We entered into employment agreements with Ms. Katy Murray and Mr. Amit Shashank, whose current agreements became effective on June 1, 2005, and Mr. Shiv Kumar in March 2004.

Katy Murray. We entered into an employment agreement with Katy Murray that became effective on June 1, 2005. Ms. Murray resigned from the Company effective September 15, 2006. Ms. Murray received an annual base salary of $280,000, which could have been increased based on annual performance reviews. Ms. Murray was eligible to receive a target bonus of $90,000 based on the achievement of performance goals.

In connection with her initial hire, Ms. Murray received a stock option grant of 120,000 shares of our Series B common stock as provided by her employment agreement.

Either Ms. Murray or we could terminate Ms. Murray's employment at any time. If we terminated Ms. Murray's employment without cause (as defined in the agreement) we would have been required to pay her a single lump sum equal to three times her monthly base salary in effect at the time of her termination. Beginning three months after her termination, we would also have been required to pay Ms. Murray her base salary for up to three months following her termination through our regular payroll practices. We would reduce these additional salary payments by any base salary Ms. Murray earned from another employer during the severance period.

We will also maintain Ms. Murray's health and dental coverage until the earlier of the end of the severance period or the date on which Ms. Murray becomes covered under another employer's coverage.

On a change in control (as defined in our 2006 Omnibus Award Plan), the vesting of all of Ms. Murray's outstanding equity awards would have been advanced by one year. For example, if one of Ms. Murray's awards were vesting ratably over a four-year period and she had been 25% vested in the award immediately prior to the change in control, Ms. Murray would have been 50% vested in the award immediately after the change in control. In addition, all of Ms. Murray's outstanding equity awards would have become fully vested if, following or in specific contemplation of a change in control, she were terminated without cause or voluntarily terminated her employment for good reason (as defined in her award agreements).

Amit Shashank. Our current employment agreement with Amit Shashank became effective on June 1, 2005. Mr. Shashank began to work for us in June 2004. Mr. Shashank receives an annual base salary of $252,000, which can be increased based on annual performance reviews. Mr. Shashank is eligible to receive a target bonus of 30% of his base salary, based on the achievement of performance goals.

On a change in control (as defined in our 2006 Omnibus Award Plan), the vesting of all of Mr. Shashank's outstanding equity awards will be advanced by one year. For example, if one of Mr. Shashank's awards were vesting ratably over a four-year period and he had been 25% vested in the award immediately prior to the change in control, Mr. Shashank will be 50% vested in the award immediately after the change in control. In addition, all of Mr. Shashank's outstanding equity awards will become fully vested if, following or in specific contemplation of a change in control, he is terminated without cause or voluntarily terminates his employment for good reason (as defined in his award agreements).

In connection with his initial hire, Mr. Shashank received a stock option grant of 30,000 shares of our Series B common stock as provided by his employment agreement. On July 27, 2006, our compensation committee approved the grant to Mr. Shashank of a restricted stock award in respect of 7,106 shares of our Series B common stock, which will vest 50% on June 7, 2007 and another 50% on June 7, 2008, generally subject to Mr. Shashank's continued employment by us on each vesting date, and a cash bonus of $168,750, payable to Mr. Shashank on January 2, 2007, irrespective of whether or not Mr. Shashank is employed by us at that time.

Shiv Kumar. We entered into an employment agreement with Shiv Kumar on January 22, 2004. Mr. Kumar began to work for us on March 1, 2004. Prior to his resignation on June 30, 2006, Mr. Kumar received an annual base salary of $225,000, and if performance goals were met, Mr. Kumar was eligible to receive an annual target bonus of $115,000. In 2004, Mr. Kumar was also granted options to purchase 30,000 shares of our Series B common stock as provided by his employment agreement.

Confidentiality and Non-Compete Arrangements. As part of their employment agreements, each of our named executive officers is subject to a standard confidentiality agreement during his employment and thereafter. In addition, Messrs. Talwar and Kapoor have agreed not to directly or indirectly participate in any business that competes with us during their employment with us and for up to two years after the termination of their employment with us.

Equity Incentive Plans

2003 India Option Plan

We adopted the ExlService Holdings, Inc. 2003 India Stock Employee Option Plan, which we refer to as the 2003 India Plan, effective on April 30, 2003. The 2003 India Plan complies with the guidelines issued by the Indian Ministry of Finance under the proviso to section 17(2)(iii)(c) of the India Income Tax Act of 1961. The following is a discussion of the features of the 2003 India Plan.

Purpose. The purpose of the 2003 India Plan is to provide eligible employees of EXL India with the opportunity to acquire an ownership interest in ExlService Holdings.

Administration. The 2003 India Plan is administered by our board of directors or our compensation committee (the "Administrator"). The Administrator has, subject to the terms of the 2003 India Option Plan, complete authority to:

- interpret the 2003 India Plan;
- determine the rights and obligations of participants under the 2003 India Plan; and
- make all other determinations necessary or advisable in the administration of the 2003 India Plan.

Our board of directors determines, in its discretion:

- the persons who may participate in the 2003 India Plan;
- the terms and conditions of the options granted under the 2003 India Plan; and
- all questions of interpretation of the 2003 India Plan or any option granted thereunder.

The determinations by our board of directors are final and binding upon all participants in the 2003 India Plan and the options granted under the 2003 India Plan.

Stock Options. Under the 2003 India Plan, the Administrator may grant awards of options to purchase shares of our common stock. These options are subject to the terms and conditions of the 2003 India Plan and a stock option agreement evidencing the award, as well as applicable Indian law.

Eligibility. Any employee of EXL India who is a resident of India and who the Board designates as eligible may participate in the 2003 India Plan, unless the employee is a Promoter (as defined in the 2003 India Plan) or one of our directors who owns, individually or beneficially, more than 10% of our stock.

Number of Shares Authorized. Options to purchase an aggregate maximum of 800,000 shares of our Series B common stock (shares of our common stock after giving effect to the Share Conversion) are available for grant under the 2003 India Plan and the 2003 Plan, discussed below, on a combined basis. As of August 15, 2006, options to purchase an aggregate of 580,628 shares of our Series B common stock (shares of our common stock after giving effect to the Share Conversion) were issued and outstanding under the 2003 India Plan and the 2003 Plan on a combined basis.

Change in Capitalization. If the Administrator determines that certain corporate transactions or events (as described in the 2003 India Plan), such as a stock split, affect the shares such that an adjustment is determined by our board of directors, in its discretion, to be consistent with such event and necessary or equitable to carry out the purposes of the 2003 India Plan, the 2003 India Plan provides the Administrator with the discretion to appropriately adjust the number, price or kind of shares of stock that may be granted under the 2003 India Plan. In addition, upon the occurrence of certain corporate events or transactions (as described in the 2003 India Plan), such as a merger, consolidation, or reorganization, all options granted under the 2003 India Plan will automatically vest and the Administrator may, in its discretion and with at least ten days prior notice to the participants, cancel all outstanding options and pay to the holders thereof, the value of such options in a form and an amount equal to what they would have received or been entitled to receive had they exercised all such options immediately prior to the consummation of such corporate event or transaction.

Term and Vesting. An option granted under the 2003 India Plan provides a participant with the right to purchase, within a specified period of time, a stated number of shares (but no more than 25,000 shares (shares of our common stock after giving effect to the Share Conversion)) at the price specified in the stock option agreement. Options granted under the 2003 India Plan will be subject to terms, including the exercise price and the conditions and timing of exercise, not inconsistent with the 2003 India Plan, as may be and specified in the applicable stock option agreement or thereafter.

Unless otherwise provided in a stock option agreement, each option granted to a participant will represent an option to purchase one share of our Series B common stock (shares of our common stock after giving effect to the Share Conversion) at an exercise price of up to $23.75 per share ($ per share after giving effect to the Share Conversion), and the option will vest with respect to 25% per year over four years. Under the terms of the 2003 India Plan, the exercise price of the option will be nominally less than the fair market value of the option on the date of grant. The options will expire no more than ten years following the date of grant. The exercise price of an option must be paid in full in order to exercise the option.

Transferability of Stock Options. Subject to the following paragraph, each option may be exercised during the participant’s lifetime only by the participant or, if permissible under applicable law, by the participant’s guardian or legal representative. No option may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a participant other than by will or by the laws of descent and distribution. The designation of a beneficiary will not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance for purposes of the 2003 India Plan.

Notwithstanding the foregoing, our board of directors may, in its discretion, provide in a stock option agreement that options granted under the 2003 India Plan may be transferred by a participant without consideration to certain persons (as described in the 2003 India Plan), pursuant to the terms of the 2003 India Plan and subject to such rules as the Administrator may adopt to preserve the purposes of the 2003 India Plan.

We will cease to make new grants under the 2003 India Plan following the consummation of this offering. Grants previously made under the 2003 India Plan may continue to be exercised in accordance with the terms of the 2003 India Plan.

We intend to file a registration statement under the Securities Act to register the resale of shares of common stock previously issued upon exercise of options granted under the 2003 India Plan.

2003 Stock Option Plan

General. We adopted the ExlService Holdings, Inc. 2003 Stock Option Plan, which we refer to as the 2003 Plan, effective as of April 30, 2003. Options to purchase an aggregate maximum 800,000 shares of our Series B common stock (shares of our common stock after giving effect to the Share Conversion) may be granted to our employees, directors and consultants, or the employees, directors and consultants of any of our affiliates under the 2003 Plan and the 2003 India Plan, discussed above, on a combined basis.

Purpose. The purpose of the 2003 Plan is to provide a means through which we and our affiliates may attract capable persons to enter and remain in our employ and to provide a means whereby our employees, directors and consultants can acquire and maintain ownership of our common stock, thereby strengthening their commitment to our welfare and our affiliates and promoting a common interest between stockholders and these employees.

Options. Both non-qualified stock options and incentive stock options may be granted under the 2003 Plan. The specific terms of options, including applicable vesting conditions, are set forth in individual option grants. Our board has the authority to determine the participants to whom options are granted, the types of options to be granted to each participant, the number of shares covered by each option, the option exercise price, the conditions and limitations applicable to the exercise of the option and to establish performance standards for determining the periods during which each option will be exercisable.

Our board is authorized to make adjustments to the terms and conditions of, and the criteria included in, options (including the number of shares under option and the exercise price of options), in the case of certain unusual or nonrecurring events, whenever our board determines that such adjustments are appropriate in order to prevent dilution or enlargement of benefits or potential benefits under the 2003 Plan, or because a change to applicable laws warrants such an adjustment. The individual option agreements govern the manner of exercise and disposition of options following termination of employment.

Amendment. Our board may amend, alter, suspend, discontinue or terminate the 2003 Plan or any portion thereof at any time, provided that any such action may not be taken without stockholder approval if such approval is necessary to comply with any tax or regulatory requirement applicable to the 2003 Plan and provided that any such amendment, alteration, suspension, discontinuance or termination that would adversely affect the rights of any participant will not be effective without the participant's consent.

As of August 15, 2006, options to purchase an aggregate of 580,628 shares of our Series B common stock (shares of our common stock after giving effect to the Share Conversion) were outstanding and unexercised under the 2003 Plan and the 2003 India Plan on a combined basis.

We will cease to make new grants under the 2003 Plan following the consummation of this offering. Grants previously made under the 2003 Plan may continue to be exercised in accordance with the terms of the 2003 Plan.

We intend to file a registration statement under the Securities Act to register the resale of shares of common stock previously issued upon exercise of options granted under the 2003 Plan.

2006 Omnibus Award Plan

General. We adopted the ExlService Holdings, Inc. 2006 Omnibus Award Plan, which we refer to as the 2006 Plan, effective on April 20, 2006.

Purpose. The purpose of the 2006 Plan is to provide a means through which we and our affiliates may attract capable persons to enter and remain in our employ and to provide a means whereby our employees, directors and consultants can acquire and maintain ownership of our common stock, thereby strengthening their commitment to our welfare and our affiliates and promoting a common interest between stockholders and these employees.

Administration. The 2006 Plan is administered by a committee (which may be our board of directors or compensation committee). It is intended, but not required, that the directors appointed to serve on our compensation committee be "Non-Employee Directors" (within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, or the Exchange Act) and "Outside Directors" within the meaning of Section 162(m) of the Internal Revenue Code, or the Code, to the extent Rule 16b-3 and Section 162(m) are applicable. However, the fact that a committee member shall fail to qualify under these requirements will not invalidate any award that is otherwise validly granted under the 2006 Plan. Subject to the terms of the 2006 Plan, the committee has the authority to grant awards, to determine the number of shares of our common stock for which each award may be granted and to determine any terms and conditions pertaining to the exercise or to the vesting of each award. The committee has the power, in its sole discretion, to accelerate the exercisability of any option and to remove any restriction on any restricted stock or restricted stock unit granted under the 2006 Plan. The committee also has full power to construe and interpret the 2006 Plan and any award agreement executed pursuant to the 2006 Plan and to establish, amend, suspend or waive any rules for the proper administration of the 2006 Plan. The determination of the committee on all matters relating to the 2006 Plan or any award agreement will be conclusive.

Eligibility. Our officers, employees, directors and consultants and those of our subsidiaries or affiliates are eligible to be designated a participant under the 2006 Plan. The committee has the sole and complete authority to determine the participants to whom awards will be granted under the 2006 Plan, subject to certain limitations described below.

Number of Shares Authorized. Under the 2006 Plan, 574,692 shares of our Series B common stock (shares of our common stock after giving effect to the Share Conversion) are available for grant. As of August 15, 2006, options to purchase 330,825 shares of our Series B common stock (shares of our common stock after giving effect to the Share Conversion) were issued and outstanding and additional options to purchase shares of our common stock are expected to be granted under our 2006 Plan upon consummation of this offering. On April 20, 2006, we granted 5,000 restricted shares of Series B common stock and on July 27, 2006, our compensation committee approved a grant of 54,606 restricted shares of our Series B common stock under our 2006 Plan. In addition, on July 1, 2006, 85,461 restricted shares of Series B common stock (shares of our common stock after giving effect to the Share Conversion) were granted under the Management Incentive Plan of the 2006 Plan described below in connection with the Inductis Acquisition. See “The Inductis Acquisition” and “—Management Incentive Plan” for a description of the vesting and forfeiture of these shares. No person may be granted awards or options and stock appreciation rights, or SARs, with respect to more than 300,000 shares of Series B common stock (shares of our common stock after giving effect to the Share Conversion). No more than 300,000 shares of Series B common stock (shares of our common stock after giving effect to the Share Conversion) may be granted under our 2006 Plan with respect to performance compensation awards in any one year. The maximum amount payable pursuant to a cash bonus under our 2006 Plan is $1,000,000. As described more fully in the 2006 Plan, if an award expires or terminates or is forfeited or if any option terminates, expires or lapses without being exercised, the number of shares previously subject to such award will again be available for future grant.

If the committee determines that certain corporate transactions or events (as described in the 2006 Plan), such as a stock split, affect the shares of common stock such that an adjustment is to be consistent with such event and necessary or equitable to carry out the purposes of the 2006 Plan, the committee may, in its discretion, appropriately adjust the maximum number of shares and the classes or series of our common stock which may be delivered pursuant to the 2006 Plan, the number of shares and the classes or series of our common stock subject to outstanding awards, the price per share of all of our common stock subject to outstanding awards and any other provisions of the 2006 Plan. In addition, upon the occurrence of certain corporate events or transactions (as described in the 2006 Plan), such as a merger, consolidation, or reorganization, the committee may, in its discretion and with at least ten days prior notice to the participants, cancel all outstanding awards and pay the holders thereof the value of such awards in a form and an amount equal to what they would have received or been entitled to receive had they exercised all such awards immediately prior to the consummation of such corporate event or transaction.

The 2006 Plan will have a term of ten years and no further awards may be granted after that date.

Terms and Conditions of Awards. Under the 2006 Plan, the committee may grant awards of nonqualified stock options, or NSOs, incentive stock options, or ISOs, SARs, restricted stock, restricted stock units, stock bonus awards, performance compensation awards (including cash bonus awards) or any combination of the foregoing. The committee may, but is not required to, provide in an award agreement that there will be a vesting acceleration or payout of the award upon a change in control, as defined in the 2006 Plan.

Options. The committee will be authorized to grant options to purchase shares of common stock that are either "qualified," meaning they are intended to satisfy the requirements of Section 422 of the Code for incentive stock options, or "nonqualified," meaning they are not intended to satisfy the requirements of Section 422 of the Code. An option provides a participant with the right to purchase, within a specified period of time, a stated number of shares of our common stock at the price specified in the award agreement. Options granted under the 2006 Plan will be subject to the terms, including the exercise price and the conditions and timing of exercise, not inconsistent with the 2006 Plan, determined by the committee and specified in the applicable award agreement or thereafter. The maximum term of an option granted under the 2006 Plan will be ten years from the date of grant (or five years in the case of an ISO granted to a 10.0% stockholder).

The exercise price per share paid by a participant will be determined by the committee at the time of grant but will not be less than 100.0% of the fair market value of one share on the date the option is granted (or no less than 110.0% of such fair market value in the case of an ISO granted to an employee who is a 10.0% stockholder). Payment in respect of the exercise of an option may be made in cash or by check, except that the committee may, in its discretion, allow such payment to be made by surrender of unrestricted shares of our common stock (at their fair market value on the date of exercise) which have been held by the participant for at least six months, or by such other method as the committee may determine and that is permitted by law. The committee may, in its discretion and to the extent permitted by law, allow such payment to be made through a broker-assisted cashless exercise mechanism. The committee may also establish rules permitting the deferral of shares of our common stock upon the exercise of options for tax planning purposes.

SARs. Our committee will be authorized to award SARs under the 2006 Plan. SARs will be subject to the terms and conditions established by the committee. A SAR is a contractual right that allows a participant to receive, either in the form of cash, shares of our common stock or a combination of the foregoing, the appreciation, if any, in the value of one share of our common stock over a certain period of time. An option granted under the 2006 Plan may include SARs, either on the date of grant or, except in the case of an ISO, by subsequent amendment. The committee may also award SARs to a participant independent of the grant of an option. SARs granted in connection with an option will become exercisable, be transferable and will expire according to the same vesting schedule, transferability rules and expiration provisions as the corresponding option. If SARs are granted independent of an option, the SARs will become exercisable, be transferable and will expire in accordance with the vesting schedule, transferability rules and the expiration provisions established by the committee and reflected in the award agreement.

No Repricing. The 2006 Plan prohibits the repricing of stock options or SARs awarded under the 2006 Plan.

Restricted Stock. Our committee will be authorized to award restricted stock under the 2006 Plan. An award of restricted stock is a grant of shares subject to conditions and restrictions set by the committee. The grant or the vesting of an award of restricted stock may be conditioned upon service to us or our affiliates or upon the attainment of performance goals or other factors, as determined in the discretion of the compensation committee. The committee may also, in its discretion, provide for the lapse of restrictions imposed upon an award of restricted stock. Holders of an award of restricted stock will have, with respect to the restricted stock granted, all of the rights of a stockholder, including the right to vote and to receive dividends.

Restricted Stock Units. The committee is authorized to award restricted stock units to participants. The committee establishes the terms, conditions and restrictions applicable to each award of restricted stock units, including the time or times at which restricted stock units will be granted or vested and the number of units to be covered by each award. The terms and conditions of each restricted stock award will be reflected in a restricted stock unit agreement. Each restricted stock unit (representing one share of our common stock) awarded to a participant will be credited with an amount equal to the cash or stock dividends paid by us in respect of one share of our common stock ("dividend equivalents"). At the discretion of the committee, dividend equivalents may either be paid currently to the participant or withheld by us for the participant's account and interest will be credited on such dividend equivalents withheld at rate to be determined by the committee. Upon expiration of the vesting period with respect to any restricted stock units covered by a restricted stock award, we will deliver to the participant or his beneficiary (i) one share of our common stock or, at the election of the committee, an amount in cash equal to the fair market value of that number of shares at the expiration of the period over which the units are to be earned for each restricted stock unit with respect to which the vesting period has expired and (ii) cash or shares of common stock equal to the dividend equivalents credited to the restricted stock unit and any interest accrued thereon.

With respect to an award of restricted stock or restricted share units that is intended to qualify as "performance-based compensation" under Section 162(m) of the Code, the timing, establishment and adjustment of performance goals will be implemented by the committee in a manner designed to preserve the treatment of such award as "performance-based compensation" for purposes of Section 162(m) of the Code.

Stock Bonus Awards. The committee may, in its discretion, grant an award of unrestricted shares of our common stock, either alone or in tandem with other awards, under such terms and conditions as the committee in its sole discretion may decide. A stock bonus award shall be granted as, or in payment of, a bonus, or to provide special incentives or recognize special achievements or contributions.

Performance Criteria. The committee may, in its discretion, condition the vesting of any award granted under the 2006 Plan upon the satisfaction of certain performance goals. To the extent an award is intended to qualify as "performance-based compensation" under Section 162(m) of the Code, the performance goals will be established by the compensation committee with reference to one or more performance criteria set forth in the 2006 Plan, either on a company-wide basis or, as relevant, in respect of one or more of our affiliates, divisions or operations.

Performance Compensation Awards. The committee may grant any award under the 2006 Plan in the form of a performance compensation award by conditioning the vesting of the award on the satisfaction of certain performance goals. The committee may establish these performance goals with reference to one or more of the following:

- net earnings or net income (before or after taxes);
- basic or diluted earnings per share (before or after taxes);
- net revenue or net revenue growth;
- gross revenue;
- gross profit or gross profit growth;
- net operating profit (before or after taxes);
- return measures (including, but not limited to, return on assets, capital, invested capital, equity or sales);
- cash flow (including, but not limited to, operating cash flow, free cash flow and cash flow return on capital);
- earnings before or after taxes, interest, depreciation, and amortization;
- gross or operating margins;
- productivity ratios;

- share price (including, but not limited to, growth measures and total stockholder return);
- expense targets;
- margins;
- operating efficiency;
- objective measures of customer satisfaction;
- working capital targets;
- measures of economic value added;
- inventory control; and
- enterprise value.

Transferability. Generally, each award may be exercised during the participant's lifetime only by the participant or, if permissible under applicable law, by the participant's guardian or legal representative, and such award may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a participant other than by will or by the laws of descent and distribution.

The committee may, in its discretion, however, provide that awards granted under the 2006 Plan that are not ISOs may be transferred by a participant without consideration to certain "permitted transferees" (as defined in the 2006 Plan), pursuant to the terms of the 2006 Plan and rules adopted by the committee.

Amendment. Our board of directors may amend, alter, suspend, discontinue, or terminate the 2006 Plan or any portion thereof at any time. No such action may be taken, however, without stockholder approval if such approval is necessary to comply with any regulatory requirement and no such action that would impair any rights under any previous award will be effective without the consent of the person to whom such award was made. In addition, the committee is authorized to amend the terms of any award granted under the 2006 Plan if the amendment would not impair the rights of any participant without his or her consent. No amendment may, however, reduce the exercise price of an option, cancel an existing option and replace it with a new option having a lower exercise price, or take any other action, that would result in such option being considered "repriced" for purposes of our proxy statement, or that would result in the option being accounted for under the variable method of accounting, without stockholder approval of such amendment.

U.S. Federal Income Tax Consequences. The following is a general summary of the material U.S. federal income tax consequences of the grant and exercise of awards under the 2006 Plan and the disposition of shares purchased pursuant to the exercise of such awards and is intended to reflect the current provisions of the Code and the regulations thereunder. This summary is not intended to be a complete statement of applicable law, nor does it address foreign, state and local tax considerations. Moreover, the U.S. federal income tax consequences to any particular participant may differ from those described herein by reason of, among other things, the particular circumstances of such participant.

Options. The Code requires that, for treatment of an option as a qualified option, shares of our common stock acquired through the exercise of a qualified option cannot be disposed of before the later of (i) two years from the date of grant of the option, or (ii) one year from the date of exercise. Holders of qualified options will generally incur no federal income tax liability at the time of grant or upon exercise of those options. However, the spread at exercise will be an "item of tax preference," which may give rise to "alternative minimum tax" liability for the taxable year in which the exercise occurs. If the holder does not dispose of the shares before two years following the date of grant and one year following the date of exercise, the difference between the exercise price and the amount realized upon disposition of the shares will constitute long-term capital gain or loss, as the case may be. Assuming both holding periods are satisfied, no deduction will be allowed to us for federal income tax purposes in connection with the grant or exercise of the qualified option. If, within two years following the date of grant or within one year following the date of exercise, the holder of shares acquired through the exercise of a qualified option disposes of those shares, the participant will generally realize taxable compensation at the time of such disposition equal to the difference between the exercise price and the lesser of the fair market value of the share on the date of exercise or the amount realized on the subsequent disposition of the shares, and that amount will generally be deductible by us for federal income tax purposes, subject to the possible limitations on deductibility under Sections 280G and 162(m) of the Code for compensation paid to executives designated in those Sections. Finally, if an otherwise qualified option becomes first exercisable in any one year for shares having an aggregate value in excess of $100,000 (based on the grant date value), the portion of the qualified option in respect of those excess shares will be treated as a non-qualified stock option for federal income tax purposes. No income will be realized by a participant upon grant of a non-qualified stock option. Upon the exercise of a non-qualified stock option, the participant will recognize ordinary compensation income in an amount equal to the excess, if any, of the fair market value of the underlying exercised shares over the option exercise price paid at the time of exercise. We will be able to deduct this same amount for U.S. federal income tax purposes, but such deduction may be limited under Sections 280G and 162(m) of the Code for compensation paid to certain executives designated in those Sections.

Restricted Stock. A participant will not be subject to tax upon the grant of an award of restricted stock unless the participant otherwise elects to be taxed at the time of grant pursuant to Section 83(b) of the Code. On the date an award of restricted stock becomes transferable or is no longer subject to a substantial risk of forfeiture, the participant will have taxable compensation equal to the difference between the fair market value of the shares on that date over the amount the participant paid for such shares, if any, unless the participant made an election under Section 83(b) of the Code to be taxed at the time of grant. If the participant made an election under Section 83(b), the participant will have taxable compensation at the time of grant equal to the difference between the fair market value of the shares on the date of grant over the amount the participant paid for such shares, if any. Special rules apply to the receipt and disposition of restricted shares received by officers and directors who are subject to Section 16(b) of the Exchange Act. We will be able to deduct, at the same time as it is recognized by the participant, the amount of taxable compensation to the participant for U.S. federal income tax purposes, but such deduction may be limited under Sections 280G and 162(m) of the Code for compensation paid to certain executives designated in those Sections.

Restricted Stock Units. A participant will not be subject to tax upon the grant of a restricted stock unit award. Rather, upon the delivery of shares or cash pursuant to a restricted stock unit award, the participant will have taxable compensation equal to the fair market value of the number of shares (or cash) he actually receives with respect to the award. We will be able to deduct the amount of taxable compensation to the participant for U.S. federal income tax purposes, but the deduction may be limited under Sections 280G and 162(m) of the Code for compensation paid to certain executives designated in those Sections.

SARs. No income will be realized by a participant upon grant of a SAR. Upon the exercise of a SAR, the participant will recognize ordinary compensation income in an amount equal to the fair market value of the payment received in respect of the SAR. We will be able to deduct this same amount for U.S. federal income tax purposes, but such deduction may be limited under Sections 280G and 162(m) of the Code for compensation paid to certain executives designated in those Sections.

Stock Bonus Awards. A participant will have taxable compensation equal to the difference between the fair market value of the shares on the date the award is made over the amount the participant paid for such shares, if any. We will be able to deduct, at the same time as it is recognized by the participant, the amount of taxable compensation to the participant for U.S. federal income tax purposes, but such deduction may be limited under Sections 280G and 162(m) of the Code for compensation paid to certain executives designated in those Sections.

Section 162(m). In general, Section 162(m) of the Code denies a publicly held corporation a deduction for U.S. federal income tax purposes for compensation in excess of $1,000,000 per year per person to its chief executive officer and the four other officers whose compensation is disclosed in its proxy statement, subject to certain exceptions. The 2006 Plan is intended to satisfy either an exception or applicable transitional rule requirements with respect to grants of options to covered employees. The 2006 Plan is designed to permit certain awards of restricted share units and other awards to be awarded in a manner intended to qualify under either the “performance-based compensation” exception to Section 162(m) of the Code or applicable transitional rule requirements.

2006 India Subplan

On April 20, 2006, our board approved the creation of a subplan under the 2006 Plan which is called the "ExlService Holdings, Inc. 2006 Omnibus India Subplan 1" (the "2006 India Subplan"). The purpose of the 2006 India Subplan is to make available to employees of our subsidiaries who reside in India the same types of awards generally available under our 2006 Plan. In addition, the 2006 India Subplan provides for grants intended to qualify as performance-based compensation under Section 162(m) of the Code. The terms and conditions governing options granted under the 2006 India Subplan are substantially similar to the terms and conditions governing options granted under the 2006 Plan. Under the 2006 India Subplan, the compensation committee may also grant awards of nonqualified stock options, incentive stock options, SARs, restricted stock, restricted share units, stock bonus awards, or any combination of the foregoing in accordance with the same terms and conditions governing such awards under the 2006 Plan. 250,000 shares of our Series B common stock (shares of our common stock after giving effect to the Share Conversion) reserved under the 2006 Plan are available for grants under the 2006 India Subplan.

We intend to file a registration statement under the Securities Act to register the shares of common stock issuable upon the exercise of outstanding options under the 2006 Plan (including the 2006 India Subplan) and the resale of shares of common stock previously issued upon exercise of options granted under the 2006 Plan (including the 2006 India Subplan).

Management Incentive Plan

In connection with our acquisition of Inductis, our board adopted the ExlService Holdings, Inc. Management Incentive Plan, or the "MIP," on July 1, 2006. The MIP is a sub plan under our 2006 Plan. The purpose of the MIP is to provide for the grant of restricted stock awards and cash awards to certain individuals who were key employees of Inductis. In connection with our acquisition of Inductis, we granted 54,319 restricted shares of Series B common stock to the former holders of Inductis securities under the MIP that vest over two or three years. Furthermore, we granted these holders restricted stock awards that comprise a total of 31,142 shares and vest over three years based on achievement of specific earnout targets for the historic Inductis business in 2006 and 2007, as set forth in the terms of the MIP and the awards granted under the MIP. Participants in the MIP are also eligible to receive awards totaling $517,871 in a mix of cash and shares of common stock if additional revenue targets for 2007 are achieved. See "The Inductis Acquisition."

PRINCIPAL STOCKHOLDERS

The table below sets forth, as of August 15, 2006, information with respect to the beneficial ownership of our common stock by:

- each of our directors (including nominees) and each of the named executive officers;
- each person who is known to be the beneficial owner of more than 5% of any class or series of our capital stock; and
- all of our directors and executive officers as a group.

The amounts and percentages of common stock beneficially owned are reported on the basis of the regulations of the Commission governing the determination of beneficial ownership of securities. Under these rules, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of such security, or investment power, which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed to be a beneficial owner of the same securities.

	Shares of Series A Common Stock Beneficially Owned Before This Offering		Shares of Series B Common Stock Beneficially Owned Before This Offering		Shares of Common Stock Beneficially Owned After This Offering (1)	
Name and Address of Beneficial Owner (2)	**Number of Shares**	**Percentage of Class**	**Number of Shares**	**Percentage of Class**	**Number of Shares**	**Percentage of Class**
Oak Hill Partnerships(3)	5,271,252(4)	49.6%	—	—%		%
FTVentures(5)	1,757,084(6)	16.5	—	—		
NUI Investments Limited(7)	526,316	5.0	—	—		
Vikram Talwar	1,053,036(8)	9.9	—	—		
Rohit Kapoor	1,053,036	9.9	—	—		
Deepak Dhawan	—	—	64,831	10.5		
Pavan Bagai(9)	—	—	187,430	30.0		
Sandeep Tyagi	328,068	3.1	—	—		
Katy Murray(10)	—	—	30,000	4.6		
Amit Shashank(11)	—	—	20,000	3.1		
Steven B. Gruber	—	—	—	—		
Bradford E. Bernstein	—	—	—	—		
Edward V. Dardani	—	—	—	—		
James C. Hale, III	—	—	—	—		
Dr. Mohanbir Sawhney	—	—	—	—		
Garen K. Staglin	—	—	—	—		
David B. Kelso	—	—	—	—		
All current directors and executive officers as a group (17 persons)(12)	2,434,140	22.9%	405,746	59.5%		%

(1) Gives effect to the Share Conversion and assumes no exercise of the underwriters' option to purchase additional shares. In the event the option is exercised, the underwriters have an option to purchase up to additional shares of our common stock.

(2) Unless otherwise noted, the business address of each beneficial owner is c/o ExlService Holdings, Inc., 350 Park Avenue, New York, New York 10022.

(3) The business address of Oak Hill Partnerships is 201 Main Street, Suite 2415, Fort Worth, TX 76102.

(4) Includes an aggregate of 5,139,471 shares of Series A common stock (shares of our common stock after giving effect to the Share Conversion) held by Oak Hill Capital Partners, L.P. and 131,781 shares of

Series A common stock (shares of our common stock after giving effect to the Share Conversion) held by Oak Hill Capital Management Partners, L.P. OHCP MGP, LLC is the sole general partner of OHCP GenPar, L.P., which is the sole general partner of Oak Hill Capital Management Partners, L.P. and Oak Hill Capital Partners, L.P. OHCP MGP, LLC exercises voting and dispositive control over the shares held by Oak Hill Capital Management Partners, L.P. and Oak Hill Capital Partners, L.P.

(5) The business address of FTVentures is 601 California Street, Suite 2200, San Francisco, CA 94109.

(6) Includes 847,139 shares of Series A common stock (shares of our common stock after giving effect to the Share Conversion) held by Financial Technology Ventures (Q), L.P., 31,403 shares of Series A common stock (shares of our common stock after giving effect to the Share Conversion) held by Financial Technology Ventures, L.P., 873,354 shares of Series A common stock (shares of our common stock after giving effect to the Share Conversion) held by Financial Technology Ventures II (Q), L.P. and 5,188 shares of Series A common stock (shares of our common stock after giving effect to the Share Conversion) held by Financial Technology Ventures II, L.P. Financial Technology Management, LLC is the sole general partner of Financial Technology Ventures (Q), L.P. and Financial Technology Ventures, L.P. Financial Technology Management II, LLC is the sole general partner of Financial Technology Ventures II (Q), L.P. and Financial Technology Ventures II, L.P. Financial Technology Management, LLC exercises voting and dispositive control over the shares held by Financial Technology Ventures (Q), L.P. and Financial Technology Ventures, L.P., and Financial Technology Management II, LLC exercises voting and dispositive control over the shares held by Financial Technology Ventures II (Q), L.P. and Financial Technology Ventures II, L.P.

(7) The business address of NUI Investments Limited is 8 Surrey Street, Norwich NR1 3NG, United Kingdom.

(8) This amount includes 42,000 shares of Series A common stock (shares of our common stock after giving effect to the Share Conversion) transferred by Mr. Talwar to a spousal lifetime access trust. Mr. Talwar's spouse and Mr. Kapoor are the trustees of this trust and share dispositive and voting control over the shares in the trust. This amount also includes 42,000 shares of Series A common stock (shares of our common stock after giving effect to the Share Conversion) transferred by Mr. Talwar's spouse to a spousal lifetime access trust. Mr. Talwar and Mr. Kapoor are the trustees of this trust and share dispositive and voting control over the shares in the trust. Mr. Kapoor disclaims beneficial ownership of these shares and this prospectus shall not be deemed an admission that Mr. Kapoor is a beneficial owner of such shares of purposes of the Securities Exchange Act of 1934. This amount also includes 169,409 shares of Series A common stock (shares of our common stock after giving effect to the Share Conversion) transferred by Mr. Talwar to a three year grantor retained annuity trust. Mr. Talwar is the sole trustee of this trust.

(9) This amount includes options to purchase 6,250 shares of Series B common stock (shares of our common stock after giving effect to the Share Conversion) owned by Mr. Bagai which are exercisable within 60 days.

(10) This amount consists of options to purchase 30,000 shares of Series B common stock (shares of our common stock after giving effect to the Share Conversion) owned by Ms. Murray which are exercisable within 60 days.

(11) This amount consists of options to purchase 20,000 shares of Series B common stock (shares of our common stock after giving effect to the Share Conversion) owned by Mr. Shashank which are exercisable within 60 days.

(12) This amount includes options to purchase 63,750 shares of Series B common stock (shares of our common stock after giving effect to the Share Conversion) owned in the aggregate by our current directors and executive officers which are exercisable within 60 days.

Stock Sale

On December 3, 2004, Vikram Talwar and Rohit Kapoor entered into a Stock Purchase Agreement with TCV V, L.P. and TCV V Member Fund, L.P., which we refer to together as TCV, pursuant to which TCV purchased an aggregate of 421,054 shares of our Series A common stock (shares of our common stock after giving effect to the Share Conversion) for an aggregate purchase price of approximately $10.0 million. In connection with the sale, Messrs. Talwar and Kapoor agreed to pay TCV the difference between TCV's purchase price and its resale price if TCV were required to resell those shares in connection with a sale of ExlService Holdings at a price lower than that paid to Messrs. Talwar and Kapoor. By its terms, certain provisions of the agreement, including the obligation to make TCV whole on a resale of its interests in the Company, will terminate upon the consummation of this offering. In addition, we granted TCV certain piggyback registration rights with respect to its shares of our Series A common stock, subject to customary restrictions and pro rata reductions in the event of a public offering. We also granted TCV approval rights relating generally to affiliate transactions, the right to purchase a pro rata share of specified issuances of our common stock or preferred stock and the right to attend meetings of our board of directors in a nonvoting observer capacity. See "Certain Relationships and Related Transactions—Transactions Entered into in Connection with this Offering—Registration Rights Agreements." The provisions of our agreement with TCV relating to approval rights of affiliate transactions, the right to participate in additional equity sales and the right to attend board meetings will terminate upon the consummation of this offering.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Transactions Entered into in Connection with this Offering

Share Conversion

Prior to this offering, we had two classes of common stock, our Series A common stock and Series B common stock. In accordance with the terms of our certificate of incorporation and our existing equity incentive plan arrangements, immediately prior to the consummation of this offering, each share of our Series B common stock will be converted automatically and without any action on the part of the holders or our part into one share of our Series A common stock, and each option to purchase shares of our Series B common stock will be adjusted to convert without any action on the part of the holders into an option to purchase the same number of shares of our Series A common stock. In addition, prior to the consummation of this offering, we will increase our total authorized number of shares of capital stock, make certain changes to our charter documents and effect the Stock Split. As a result, after this offering, we will only have one class of common stock outstanding, which will be referred to as common stock.

Termination of Stockholders' Agreement

We are parties to an Amended and Restated Stockholders' Agreement with Oak Hill Capital Partners, L.P., Oak Hill Capital Management Partners, L.P., Financial Technology Ventures, L.P., Financial Technology Ventures (Q), L.P., Financial Technology Ventures II, L.P., Financial Technology Ventures II (Q), L.P., TCV V, L.P., TCV Member Fund, L.P., NUI Investments Limited, Vikram Talwar, Rohit Kapoor, Sandeep Tyagi and certain other stockholders who received shares of our common stock in connection with the Inductis Acquisition. This agreement contains certain rights and restrictions on the sale, assignment, transfer, encumbrance or other disposition of the approximately 10,660,513 shares of our Series A and Series B common stock (shares of our common stock after giving affect to the Share Conversion) that are subject to the agreement. This agreement will automatically terminate by its terms upon the consummation of this offering.

Our director, Mr. Steven Gruber, is a Managing Partner of Oak Hill Capital Management, Inc., the investment advisor to Oak Hill Capital Partners, L.P., one of our 5% stockholders. Our director, Mr. Edward Dardani, is a principal of Oak Hill Capital Management, Inc., the investment advisor to Oak Hill Capital Partners, L.P., one of our 5% stockholders. Our director, Mr. Bradford E. Bernstein, is a Partner at FTVentures, one of our 5% stockholders, and a former Partner of Oak Hill Capital Management, Inc. Our director, Mr. James C. Hale III is a General Partner and Managing Member of FTVentures, one of our 5% stockholders. Our director, Mr. Staglin, is a senior advisor for FT Ventures.

Registration Rights Agreements

Prior to the consummation of this offering, Oak Hill Capital Partners, L.P., Oak Hill Capital Management Partners, L.P., Financial Technology Ventures (Q), L.P., Financial Technology Ventures, L.P., Financial Technology Ventures II (Q), L.P., Financial Technology Ventures II, L.P., Vikram Talwar, Rohit Kapoor and certain of their respective affiliates, which we refer to as the Designated Stockholders, will enter into a registration rights agreement with us relating to the shares of common stock they hold. Subject to several exceptions, including our right to defer a demand registration under certain circumstances, Designated Stockholders holding at least a majority of the registrable securities held by all of the Designated Stockholders may require that we register for public resale under the Securities Act all shares of common stock that they request be registered at any time after the expiration of the relevant lock-up period following this offering. The Designated Stockholders may demand a number of registrations so long as the securities being registered in each registration statement are reasonably expected to produce specified aggregate proceeds. If we become eligible to register the sale of our securities on Form S-3 under the Securities Act, the Designated Stockholders have the right to require us to register the sale of the common stock held by them on Form S-3, subject to offering size and other restrictions. Non-requesting Designated Stockholders are entitled to piggyback registration rights with respect to any registration request made by the requesting Designated Stockholders. If the registration requested by the Designated Stockholders is in the form of a firm underwritten offering, and if the managing underwriter of the offering determines that the number of securities to be offered would have a material adverse effect on the distribution or sales price of the shares of common stock in the offering, the number of shares included in the offering will be determined as follows:

- first, shares offered by the requesting Designated Stockholders (pro rata, based on the number of their respective shares requested to be included in such offering);
- second, shares offered by any other stockholders (pro rata, based on the number of their respective shares requested to be included in such offering) except to the extent any such holders have agreed under existing agreements to grant priority with regard to participation in such offering to any other holders of Company securities; and
- third, shares offered by us for our own account.

In addition, the Designated Stockholders have been granted piggyback rights on any registration for our account or the account of another stockholder. If the managing underwriter in an underwritten offering determines that the number of securities offered in a piggyback registration would have a material adverse effect on the distribution or sales price of the shares of common stock in the offering, the number of shares included in the offering will be determined as follows:

- first, shares offered by us for own account if we have initiated such registration or by any stockholders exercising demand rights with respect to such registration (pro rata, based on the number of their respective shares requested to be included in such offering);
- second, shares offered by any of our other stockholders (including the Designated Stockholders) (pro rata, based on the number of their respective shares requested to be included in such offering) except to the extent any such holders have agreed under existing agreements to grant priority with regard to participation in such offering to any other holders of Company securities; and
- third, shares offered by us for our own account if any stockholder initiated such registration by exercising demand rights.

In connection with this offering or the other registrations described above, we will indemnify any selling stockholders, and we will bear all fees, costs and expenses (except underwriting discounts and selling commissions).

On December 3, 2004, we granted TCV certain piggyback registration rights with respect to its shares of our common stock, subject to customary restrictions and pro rata reductions in the number of shares to be sold in an offering. We will indemnify TCV and bear all fees, costs and expenses, except underwriting commissions or discounts, brokerage fees, transfer taxes, expenses of counsel, accountants or other representatives retained by TCV in connection with any registration of TCV’s shares.

As discussed elsewhere in this prospectus, we have also agreed to provide certain piggyback registration rights to Norwich Union and Prudential Financial.

Stock and Note Purchase Agreement

On December 13, 2002, we entered into a Stock and Note Purchase Agreement with Oak Hill Capital Partners, L.P., Oak Hill Capital Management Partners, L.P., Financial Technology Ventures, L.P., Financial Technology Ventures (Q), L.P., Financial Technology Ventures II, L.P., Financial Technology Ventures II (Q), L.P., Vikram Talwar and Rohit Kapoor. Under this agreement, we issued and sold shares of our Series A common stock and Series A preferred stock and issued senior promissory notes to these persons. We intend to use a portion of the net proceeds from this offering to repurchase or redeem $6.3 million in aggregate principal amount of Series A preferred stock, plus accrued and unpaid dividends to the redemption date, and to repay all of those senior promissory notes in the aggregate principal amount of $5.7 million, plus accrued and unpaid interest to the repayment date. The following table lists the aggregate purchase price paid by each party, the securities acquired and the amount to be paid to redeem the Series A preferred stock and repay the senior promissory notes.

	Aggregate Purchase Price	Shares of Series A Common Stock (#)	Shares of Series A Preferred Stock (#)	Principal Amount of Senior Promissory Notes	Amount to be Paid to Repurchase or Redeem Series A Preferred Stock and Senior Promissory Notes
Oak Hill Capital Partners, L.P.	$ 7,312,500.00	5,139,471	29,182.00	$ 3,175,549.94	$
Oak Hill Capital Management Partners, L.P.	187,500.00	131,781	748.26	81,424.07	
Financial Technology Ventures, L.P.	44,680.00	31,403	178.30	19,403.24	
Financial Technology Ventures (Q), L.P.	1,205,320.00	847,139	4,810.07	523,426.43	
Financial Technology Ventures II, L.P.	7,381.25	5,188	29.46	3,204.99	
Financial Technology Ventures II (Q), L.P.	1,242,618.75	873,354	4,958.92	539,623.68	
Vikram Talwar	612,135.32	1,053,036	1,496.51	162,848.91	
Rohit Kapoor	612,135.32	1,053,036	1,496.51	162,848.91	

Agreements with Norwich Union

Stock Purchase Agreement

On July 22, 2004, we entered into a Stock Purchase Agreement with NUI Investments Limited, an affiliate of our client Norwich Union, pursuant to which NUI Investments Limited purchased 526,316 shares of our Series A common stock for an aggregate purchase price of $12,500,000. Following the consummation of this offering and the Share Conversion, these shares will be converted into shares of our common stock, representing approximately % of our total outstanding common stock. Provisions of the Stock Purchase Agreement relating to certain approval rights, subsequent client-related transactions and additional equity financings will terminate upon the consummation of this offering. We granted Norwich Union piggyback registration rights subject to customary restrictions and pro rata reductions in the number of shares to be sold in an offering. We will indemnify NUI Investments Limited and bear all fees, costs and expenses, except underwriting commissions or discounts, brokerage fees, transfer taxes, expenses of counsel, accountants or other representatives retained by NUI Investments Limited in connection with any registration of shares purchased by NUI Investments Limited.

Insurance Services Framework Agreements

On May 28, 2003, we entered into an initial Insurance Services Framework Agreement with Norwich Union to supply them with insurance services. In connection with this agreement, we entered into a guarantee agreement, confidentiality agreement and data protection agreement. Each of these agreements was subsequently terminated in 2004 and replaced by two new Insurance Services Framework Agreements with Norwich Union.

Our Insurance Services Framework Agreements with Norwich Union provide a broad range of business process services to Norwich Union and its affiliates from our facilities in Pune, which we refer to as the Pune Agreement, and Noida, which we refer to as the Noida Agreement. These agreements provide that we will supply insurance services to Norwich Union to be set forth in work orders between us and Norwich Union. Under those agreements, we will generally be responsible for facility planning and management, IT and telecommunications services.

Under the Pune Agreement, neither we nor Norwich Union is under any obligation to comply with its obligations under that agreement, or to receive or provide insurance services, prior to the signing of a work order. However, under the Noida Agreement, Norwich Union has agreed to make a minimum commitment to use our insurance services requiring an average of not less than 550 full-time employees in the Noida facility in any continuous period of 12 months following August 1, 2004, with such commitment increasing to 650 full-time employees during the six-month period beginning July 1, 2006, 700 full-time employees during the six-month period beginning January 1, 2007, and 750 full-time employees in any continuous period of six months following July 1, 2007.

Under the Noida Agreement, we and Norwich Union have agreed to the following restrictive covenants for so long as the average number of full-time employees used to provide the services under both the Pune Agreement and the Noida Agreement during any period of 12 months ending on any anniversary of this agreement is less than 600 in aggregate. We have agreed not to provide in India any services similar to the services we provide to Norwich Union to competitors of Norwich Union that have been identified by Norwich Union. Further, during the term of this agreement and until the second anniversary of the date of termination, Norwich Union has agreed not to engage in certain competing activities.

The Pune Agreement has a minimum term of three years and the Noida Agreement has a minimum term of five years.

Either we or Norwich Union may terminate the agreements immediately under certain circumstances, including our failure to meet certain performance standards, without cost or liability. The Pune Agreement expires in January 2007 and can only be terminated for cause during its initial term, but work orders under that agreement cannot be terminated without cause before July 1, 2007. The Noida Agreement expires in July 2009 and can be terminated without cause upon six months prior notice and payment to us of a break-up fee during its initial term. After these initial terms, Norwich Union may terminate these agreements without cause or penalty with six months notice. Norwich Union may also terminate a work order immediately upon certain circumstances or for any reason with three months prior written notice and payment of a termination fee except as described above for work orders under the Pune Agreement.

Norwich Union pays us for our services on a cost-plus basis. In addition to the costs, Norwich Union has agreed to pay us a management fee which is based on three levels of performance. The agreement which relates to the Noida facility provides that if in any continuous period of 12 months following July 29, 2004, the amount of the management fee paid to us in that period is less than the amount of the management fee that would have been so paid had the minimum commitment described therein been complied with, Norwich Union will then pay us any difference. We will also share any cost efficiency savings with Norwich Union, based on previously agreed upon percentages of those savings.

In separate Guarantee and Indemnity Agreements, two affiliates of Norwich Union have each guaranteed under certain circumstances the payment of all obligations under the Insurance Services Framework Agreements for each of the Pune and Noida facilities, up to a maximum payment of an aggregate of £26.0 million (U.S.$47.7 million at the exchange rate as of June 30, 2006). These two affiliates have also agreed to indemnify us for any losses we may incur while acting in good faith under the applicable service agreement or related work order, as a result of any default by Norwich Union or each of those affiliates, as the case may be.

In addition, we and our operating subsidiaries that are the subject of those service agreements have entered into data protection agreements, which establish the obligations of each party to protect the export and use of personal data disclosed by, and on behalf of, Norwich Union, relating to its U.K. customers.

Purchase by Norwich Union of Assets of EXL India

Under the Noida Agreement, Norwich Union has the option to purchase certain of the assets of our operating subsidiary, EXL India, for the book value (as defined in that agreement) of these assets on the terms and conditions set forth in the agreement, under any of the following circumstances:

- if we are in material default of that agreement, as defined in the agreement, and such default affects the insurance services provided by more than 300 full-time employees or their equivalent;
- upon our change of control that was not approved by Norwich Union in advance, which change of control results or would result in us becoming a company controlled by a competitor of Norwich Union or its affiliates, as defined in that agreement; or
- if there has been a material default, as defined in the agreement, by us, that has prejudiced or is likely to prejudice the reputation of Norwich Union or its affiliates.

Option to Purchase Stock of NCOP

We entered into a Virtual Shareholders' Agreement with Norwich Union, EXL India and NCOP, the operating subsidiary for the Pune services, on August 26, 2004. Under that agreement, as amended, Norwich Union has the option to purchase all of the outstanding shares of NCOP under the following circumstances:

- with six months prior notice, at any time during the period commencing on January 1, 2008 and terminating on February 26, 2011; or
- upon termination of the Insurance Services Framework Agreement relating to the Pune facility pursuant to its terms.

Norwich Union has recently publicly announced its intention to start exercising its option to assume the operations of the facilities of certain of its third party vendor-contractors, including one of our facilities in Pune.

We may cause Norwich Union to purchase all of the outstanding shares of NCOP under the following circumstances:

- if the volumes (as defined in the agreement) of NCOP on the date we give notice of this "put" to Norwich Union are less than 90% of NCOP on August 26, 2007, at any time during the period commencing on August 26, 2007 and terminating on February 26, 2011; or
- upon termination by us of the Insurance Services Framework Agreement relating to the Pune facility pursuant to its terms.

In either case, the purchase price of the stock will be the net asset value (as defined in the agreement) of NCOP for the NCOP shares. This agreement will terminate one month after the termination of the Pune Agreement. Norwich Union also has the right under that agreement to designate for election one member of the board of directors of NCOP.

Management Arrangement

We have a management arrangement with Oak Hill Capital Partners, L.P. and FTVentures, pursuant to which we make payments to Oak Hill Capital Partners, L.P. and FTVentures of not more than $200,000 per year in return for advice related to insurance matters, including directors and officers insurance, various business introductions, assistance in hiring of key employees and other services related to marketing our services to potential clients. In years during which we do not meet certain financial thresholds, the amount is reduced to $100,000 per year. We accrued $100,000 in management fees for the first six months of 2006 and paid an annual management fee of $100,000, $200,000 and $200,000 with respect to services rendered in each of 2005, 2004 and 2003. This management arrangement will terminate upon the consummation of this offering.

Company Holder Agreements

In connection with the Inductis Acquisition, we entered into Company Holder Agreements with the former holders of Inductis common stock and options to purchase Inductis common stock, including Mr. Tyagi. The agreements generally prohibit the transfer of the shares of our Series A common stock received in connection with the Inductis Acquisition, subject to certain exceptions. See “The Inductis Acquisition—Company Holder Agreement” for a more complete discussion of the terms of the Company Holder Agreements.

Other Related-party Transactions

We have retained E-placements Pvt. Ltd, or E-placements, to provide us with language training services. E-placements is a company controlled by Vikram Talwar, our Chief Executive Officer and Vice Chairman, and his immediate family, and is operated by Siddarth Talwar, Mr. Talwar’s son. We recorded expenses related to these services of $25,925 for the first six months of 2006 and $86,417, $223,458 and $192,944 for fiscal years 2005, 2004 and 2003, respectively. Our board of directors approved all of our transactions with E-placements. Our agreement with E-placements will terminate on September 30, 2006.

We provide advisory services related primarily to compliance with the Sarbanes-Oxley Act of 2002 to Williams Scotsman, Inc., a provider of mobile and modular building solutions in North America. Williams Scotsman, Inc. is controlled by entities related to Oak Hill Capital Partners, L.P., one of our 5% stockholders. Steven Gruber, our Chairman of the board of directors, is also a director of Williams Scotsman, Inc. and its parent corporation, Williams Scotsman International, Inc. We received approximately $245,410 in the first six months of 2006 and approximately $320,000 and $26,000 in 2005 and 2004, respectively, in advisory fees and expense reimbursements from Williams Scotsman, Inc.

We provide BPO services to MedSynergies, Inc., a provider of outsourced billing, claims administration and payment processing services to healthcare providers. MedSynergies, Inc. is controlled by entities related to FTVentures, one of our 5% stockholders. We received approximately $156,335 in 2006 and nil in 2005 from MedSynergies, Inc.

We provide advisory services to Duane Reade Holdings, Inc., a New York City drugstore chain. Duane Reade Holdings, Inc. is indirectly owned by Oak Hill Capital Partners, L.P., one of our 5% stockholders. We received approximately $278,900 in the first six months of 2006 and $213,840 in 2005 and nil in 2004 and 2003 in advisory fees and expense reimbursements from Duane Reade Holdings, Inc.

Russell Bedford Stefanou Mirchandani, LLP, or RBSM, Inductis’ independent registered public accounting firm, provided certain services to Sandeep Tyagi, who was at the time the managing principal of Inductis LLC and is currently one of our executive officers, in connection with his personal income tax returns in 2006. In addition, RBSM prepared the personal tax return of Rohit Kapoor, our President and Chief Financial Officer, and Arrowhead Advisors LLC, an entity affiliated with Mr. Kapoor, in 2006. RBSM has ceased providing any further services to Messrs. Tyagi and Kapoor and Arrowhead Advisors LLC.

DESCRIPTION OF CAPITAL STOCK

Prior to the Share Conversion, our authorized capital stock consists of 13,000,000 shares of common stock, of which 11,122,702 shares are designated as Series A common stock and 1,839,230 shares are designated as Series B common stock, and 55,000 shares of preferred stock, of which 45,833.36 are designated as Series A preferred stock. 10,617,696 shares of Series A common stock, 617,672 shares of Series B common stock and 45,304 shares of Series A preferred stock were issued and outstanding (excluding shares to be issued upon exercise of options granted under our equity incentive plans and otherwise) as of August 31, 2006.

Stock Split and Share Conversion

Prior to this offering, we had two classes of common stock, our Series A common stock and Series B common stock. In accordance with the terms of our certificate of incorporation and our existing stock option plan arrangements, immediately prior to the consummation of this offering, each share of our Series B common stock will be converted automatically and without any action on the part of the holders or our part into one share of our Series A common stock, and each option to purchase shares of our Series B common stock will be adjusted to convert without any action on the part of the holders into an option to purchase the same number of shares of our Series A common stock. In addition, prior to the consummation of this offering, we will increase our total authorized number of shares of capital stock, make certain changes to our charter documents and effect the Stock Split. As a result, after this offering, we will only have one class of common stock outstanding, which will be referred to as common stock.

After giving effect to the Share Conversion and the application of the net proceeds of this offering as described under "Use of Proceeds," our authorized capital stock will consist of shares of common stock and of preferred stock, of which shares of common stock and no shares of preferred stock are expected to be outstanding (excluding shares to be issued upon exercise of outstanding options and assuming the underwriters do not exercise their option to purchase additional shares). If the underwriters exercise their option in full, we expect shares of common stock to be outstanding.

Common Stock

The holders of our common stock are entitled to one vote per share on all matters submitted to a vote of stockholders, including the election of directors. Holders of the common stock do not have any preemptive rights or cumulative voting rights, which means that the holders of a majority of the outstanding common stock voting for the election of directors can elect all directors then being elected. The holders of our common stock are entitled to receive dividends when, as, and if declared by our board out of legally available funds. Upon our liquidation or dissolution, the holders of common stock will be entitled to share ratably in those of our assets that are legally available for distribution to stockholders after payment of liabilities and subject to the prior rights of any holders of preferred stock then outstanding. All of the outstanding shares of common stock are, and the shares of common stock to be sold in this offering when issued and paid for will be, fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subject to the rights of the holders of shares of any series of preferred stock that may be issued in the future.

Preferred Stock

After the consummation of this offering, we will be authorized to issue up to shares of preferred stock. Our board of directors is authorized, subject to limitations prescribed by Delaware law and our certificate of incorporation, to determine the terms and conditions of the preferred stock, including whether the shares of preferred stock will be issued in one or more series, the number of shares to be included in each series and the powers, designations, preferences and rights of the shares. Our board of directors also is authorized to designate any qualifications, limitations or restrictions on the shares without any further vote or action by the stockholders. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of our company and may adversely affect the voting and other rights of the holders of our common stock, which could have an adverse impact on the market price of our common stock. We have no current plan to issue any shares of preferred stock following the consummation of this offering.

Certain Certificate of Incorporation, By-Law and Statutory Provisions

The provisions of our certificate of incorporation and by-laws and of the Delaware General Corporation Law summarized below may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that you might consider in your best interest, including an attempt that might result in your receipt of a premium over the market price for your shares.

Directors' Liability; Indemnification of Directors and Officers

Our certificate of incorporation will provide that a director will not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except:

- for any breach of the duty of loyalty;
- for acts or omissions not in good faith or which involve intentional misconduct or knowing violations of law;
- for liability under Section 174 of the Delaware General Corporation Law (relating to unlawful dividends, stock repurchases, or stock redemptions); or
- for any transaction from which the director derived any improper personal benefit.

This provision does not limit or eliminate our rights or those of any stockholder to seek non-monetary relief such as an injunction or rescission in the event of a breach of a director's duty of care. The provisions will not alter the liability of directors under federal securities laws. In addition, our certificate of incorporation and by-laws will provide that we indemnify each director and the officers, employees, and agents determined by our board of directors to the fullest extent provided by the laws of the State of Delaware.

Special Meetings of Stockholders

Our certificate of incorporation will provide that special meetings of stockholders may be called only by the chairman or by a majority of the members of our board. Stockholders are not permitted to call a special meeting of stockholders, to require that the chairman call such a special meeting, or to require that our board request the calling of a special meeting of stockholders.

Stockholder Action; Advance Notice Requirements for Stockholder Proposals and Director Nominations

Our certificate of incorporation will provide that stockholders may not take action by written consent, but may only take action at duly called annual or special meetings, unless the action to be effected by written consent and the taking of such action by written consent have expressly been approved in advance by the board. In addition, our by-laws will establish advance notice procedures for:

- stockholders to nominate candidates for election as a director; and
- stockholders to propose topics for consideration at stockholders' meetings.

Stockholders must notify our corporate secretary in writing prior to the meeting at which the matters are to be acted upon or directors are to be elected. The notice must contain the information specified in our by-laws. To be timely, the notice must be received at our corporate headquarters not less than 90 days nor more than 120 days prior to the first anniversary of the date of the prior year's annual meeting of stockholders. If the annual meeting is advanced by more than 30 days, or delayed by more than 70 days, from the anniversary of the preceding year's annual meeting, or if no annual meeting was held in the preceding year or for the first annual meeting following this offering, notice by the stockholder, to be timely, must be received not earlier than the 120th day prior to the annual meeting and not later than the later of the 90th day prior to the annual meeting or the 10th day following the day on which we notify stockholders of the date of the annual meeting, either by mail or other public disclosure. In the case of a special meeting of stockholders called to elect directors, the stockholder notice must be received not earlier than 120 days prior to the special meeting and not later than the later of the 90th day prior to the special meeting or 10th day following the day on which we notify stockholders of the date of the special meeting, either by mail or other public disclosure. Notwithstanding the above, in the event that the number of directors to be elected to the board at an annual meeting is increased and we do not make any public announcement naming the nominees for the additional directorships at least 100 days before the first anniversary of the preceding year's annual meeting, a stockholder notice of nomination shall also be considered timely, but only with respect to nominees for the additional directorships, if it is delivered not later than the close of business on the tenth day following the day on which such public announcement is first made. These provisions may preclude some stockholders from bringing matters before the stockholders at an annual or special meeting or from nominating candidates for director at an annual or special meeting.

Election and Removal of Directors

Our board will be divided into three classes. The directors in each class will serve for a three-year term, one class being elected each year by our stockholders. Our stockholders may only remove directors for cause and with the vote of at least 66 2/3% of the total voting power of our issued and outstanding capital stock entitled to vote in the election of directors. Our board of directors may elect a director to fill a vacancy, including vacancies created by the expansion of the board of directors. This system of electing and removing directors may discourage a third party from making a tender offer or otherwise attempting to obtain control of us, because it generally makes it more difficult for stockholders to replace a majority of our directors.

Our certificate of incorporation and by-laws will not provide for cumulative voting in the election of directors.

Amendment of the Certificate of Incorporation and By-Laws

Our certificate of incorporation will provide that the affirmative vote of the holders of at least 66 2/3% of the voting power of our issued and outstanding capital stock entitled to vote in the election of directors, is required to amend the following provisions of our certificate of incorporation:

- the provisions relating to our classified board of directors;
- the provisions relating to the number and election of directors, the appointment of directors upon an increase in the number of directors or vacancy, and the provisions relating to the removal of directors;
- the provisions requiring a 66 2/3% stockholder vote for the amendment of certain provisions of our articles of incorporation and for the adoption, amendment or repeal of our by-laws;
- the provisions relating to the restrictions on stockholder actions by written consent; and
- the provisions relating to the calling of meetings of stockholders.

In addition, the board of directors will be permitted to alter our by-laws without obtaining stockholder approval and the affirmative vote of holders of at least 66 2/3% of the voting power of our issued and outstanding capital stock entitled to vote in the election of directors will be required for any amendment to our by-laws by the stockholders.

Anti-Takeover Provisions of Delaware Law

We will be subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prevents an interested stockholder (defined generally as a person owning 15% or more of the corporation's outstanding voting stock) of a Delaware corporation from engaging in a business combination (as defined) for three years following the date that person became an interested stockholder unless various conditions are satisfied.

Transfer Agent and Registrar

The transfer agent and registrar for the common stock will be Registrar and Transfer Company. Its telephone number is 1-800-456-0596.

Nasdaq Global Market Quotation

We have applied to list our common stock on the Nasdaq Global Market under the symbol "EXLS."

SHARES AVAILABLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common stock. We cannot make any prediction as to the effect, if any, that sales of common stock or the availability of common stock for sale will have on the market price of our common stock. The market price of our common stock could decline because of the sale of a large number of shares of our common stock or the perception that such sales could occur. These factors could also make it more difficult to raise funds through future offerings of common stock. See “Risk Factors—Risks Related to this Offering—Substantial future sales of shares of our common stock in the public market could cause our stock price to fall.”

Sale of Restricted Shares

Upon consummation of this offering, we will have shares outstanding, excluding shares underlying outstanding options, assuming the underwriters do not exercise their option to purchase additional shares. Of these shares, the shares sold in this offering (or shares if the underwriters exercise their option in full) will be freely tradable without restriction or further restriction under the Securities Act, except that any shares purchased by our affiliates, as that term is defined in Rule 144 under the Securities Act, may generally only be sold in compliance with the limitations of Rule 144 described below. As defined in Rule 144, an affiliate of an issuer is a person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the issuer. After this offering, approximately of our outstanding shares of common stock will be deemed “restricted securities,” as that term is defined under Rule 144. Restricted securities may be sold in the public market only if they qualify for an exemption from registration under Rule 144, 144(k) or 701 under the Securities Act, which rules are summarized below, or any other applicable exemption under the Securities Act. Immediately following the consummation of this offering, the holders of approximately shares of common stock will be entitled to dispose of their shares pursuant to the volume and other restrictions of Rule 144 under the Securities Act and the holders of approximately shares of common stock, representing approximately % of our outstanding common stock, will be entitled to dispose of their shares following the expiration of an initial 180-day “lock-up” period pursuant to the volume and other restrictions of Rule 144.

In addition, we could issue up to 389,906 additional shares of Series A common stock (shares of our common stock after giving effect to the Share Conversion) under the earnout payment provisions relating to the Inductis Acquisition. Based on satisfaction of agreed upon financial performance goals in 2007, we also agreed to make certain additional contingent payments to the former holders of Inductis securities in a mix of cash and additional shares of our common stock, the mix of which cannot be determined until the size of the contingent payments, if any, is determined. The value of any such contingent payments will range from $0.6 million to $6.5 million.

In connection with the Inductis Acquisition, we entered into the Company Holder Agreements with the former holders of Inductis common stock, including Mr. Tyagi. The agreements generally prohibit the transfer of the shares of our Series A common stock received in connection with the Inductis Acquisition, subject to certain exceptions. See “The Inductis Acquisition—Company Holder Agreement” for a more complete discussion of the terms of the Company Holder Agreements.

Rule 144

In general, under Rule 144 under the Securities Act, a person (or persons whose shares are aggregated) who has beneficially owned restricted securities within the meaning of Rule 144 for at least one year, and including the holding period of any prior owner except an affiliate, would be entitled to sell within any three-month period a number of shares that does not exceed the greater of one percent of the then outstanding shares of our common stock or the average weekly trading volume of our common stock reported through the Nasdaq Global Market during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about our company.

Rule 144(k)

Under Rule 144(k) under the Securities Act, any person (or persons whose shares are aggregated) who is not deemed to have been our affiliate at any time during the three months preceding a sale, and who has beneficially owned shares for at least two years (including any period of ownership of preceding non-affiliated holders), would be entitled to sell these shares without regard to the volume limitations, manner of sale provisions, public information requirements or notice requirements of Rule 144.

Rule 701

Securities issued in reliance on Rule 701 under the Securities Act are also restricted and may be sold by stockholders other than affiliates of ours subject only to the manner of sale provisions of Rule 144 and by affiliates under Rule 144 without compliance with its one-year holding period requirement.

Options/Equity Awards

We intend to file a registration statement under the Securities Act to register approximately shares of common stock reserved for issuance or sale under our equity incentive plans and shares held for resale by our existing stockholders that were previously issued under our equity incentive plans. After giving pro forma effect to the Share Conversion, options to purchase a total of shares of our common stock were outstanding under our equity incentive plans, of which options to purchase shares were exercisable immediately. In addition, an entity also holds options exercisable immediately to purchase shares of our common stock after giving pro forma effect to the Share Conversion. Shares issued upon the exercise of stock options after the effective date of the registration statement will be eligible for resale in the public market without restriction, subject to Rule 144 limitations applicable to affiliates and the lock-up agreements described below.

Lock-up Agreements

EXL Holdings, our executive officers and directors and certain of our other stockholders have agreed that, for a period of 180 days from the date of this prospectus, subject to certain extensions, they will not, without the prior written consent of Citigroup Global Markets Inc. and Goldman, Sachs & Co., dispose of or hedge any shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock, subject to certain exceptions. Citigroup and Goldman, Sachs & Co., in their sole discretion, may release any of the securities subject to these lock-up agreements at any time without notice.

Immediately following the consummation of this offering, stockholders subject to lock-up agreements will hold shares of our common stock, representing approximately % of our then outstanding shares of common stock, or approximately % if the underwriters exercise their option to purchase additional shares in full.

We have agreed not to issue, sell or otherwise dispose of any shares of our common stock during the 180-day period following the date of this prospectus (subject to certain extensions). We may, however, grant options to purchase shares of common stock and issue shares of common stock upon the exercise of outstanding options under our existing equity incentive plans, we may issue common stock upon the conversion of securities or the exercise of warrants or options outstanding, we may issue or sell common stock in connection with an acquisition or business combination (subject to a specified maximum amount) as long as the acquiror of such common stock agrees in writing to be bound by the obligations and restrictions of our lock-up agreement, and we may issue common stock to satisfy our earnout and contingent payment obligations in connection with the Inductis Acquisition.

Former holders of Inductis common stock who received shares of our Series A common stock have agreed to certain restrictions on the transfer of such shares. See “The Inductis Acquisition—Company Holder Agreement.”

Registration Rights

We have granted registration rights to some of our stockholders who, following the consummation of this offering, will hold approximately shares of our common stock in the aggregate (including shares issuable upon the exercise of outstanding options). Under certain circumstances, some of these stockholders can require us to file registration statements that permit them to re-sell their shares. For more information, see "Certain Relationships and Related Transactions—Registration Rights Agreements" and "—Agreements with Norwich Union—Stock Purchase Agreement."

MATERIAL U.S. FEDERAL TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following discussion summarizes certain material U.S. federal income tax and estate tax consequences of the ownership and disposition of shares of our common stock purchased pursuant to this offering by a holder that is a non-U.S. holder as we define that term below. This discussion is based on the Code, administrative pronouncements, judicial decisions, existing and proposed Treasury Regulations, and interpretations of the foregoing, all as of the date of this prospectus. All of the foregoing authorities are subject to change (possibly with retroactive effect) and any such change may result in U.S. federal income tax consequences to a holder that are materially different from those described below. We have not sought, and will not seek, any ruling from the U.S. Internal Revenue Service (IRS) or opinion of counsel with respect to the tax consequences discussed in this prospectus. Consequently, the IRS may disagree with or challenge any of the tax consequences discussed in this prospectus.

The following discussion does not purport to be a full description of all U.S. federal income tax considerations that may be relevant to a non-U.S. holder in light of such holder's particular circumstances and only addresses non-U.S. holders who hold common stock as capital assets within the meaning of Section 1221 of the Code. Furthermore, this discussion does not address the U.S. federal income tax considerations applicable to holders subject to special rules, such as certain financial institutions, tax-exempt entities, real estate investment trusts, regulated investment companies, insurance companies, partnerships or other pass-through entities, persons who have ceased to be U.S. citizens or to be taxed as resident aliens, dealers in securities or currencies, persons holding common stock in connection with a hedging transaction, "straddle," conversion transaction or a synthetic security or other integrated transaction, holders subject to special U.S. federal income tax rules (such as "passive foreign investment companies" and "controlled foreign corporations") or holders whose "functional currency" is not the U.S. dollar. In addition, this discussion does not include any description of any alternative minimum tax consequences, gift tax consequences, or the tax laws of any state, local or foreign government that may be applicable to non-U.S. holders of our common stock. We urge you to consult your own tax advisor concerning the U.S. federal, state or local income tax and federal, state or local estate tax consequences of your ownership and disposition of our common stock in light of your particular situation as well as any consequences arising under the laws of any other taxing jurisdiction or under any applicable tax treaty.

As used in this discussion, a "non-U.S. holder" means a beneficial owner of shares of common stock who is not, for U.S. tax purposes:

- a citizen or individual resident of the U.S.;
- a corporation or other entity taxable as a corporation created or organized in the U.S. or under the laws of the U.S. or of any state thereof (including the District of Columbia);
- an estate, income of which is subject to U.S. federal income taxation regardless of its source;
- a trust the administration of which is subject to the primary supervision of a U.S. court and that has one or more U.S. persons who have the authority to control all substantial decisions of the trust; or
- a trust that has validly elected to be treated as a U.S. person for U.S. federal income tax purposes under applicable Treasury Regulations.

If a partnership or other pass-through entity holds our common stock, the tax treatment of a partner in or owner of the partnership or pass-through entity will generally depend upon the status of the partner or owner and the activities of the entity. If you are a partner in or owner of a partnership or other pass-through entity that is considering holding our common stock, you should consult your tax advisor.

Payment of Dividends

We do not presently anticipate paying cash dividends on shares of our common stock. For more information, please see "Dividend Policy." If dividends are paid on shares of our common stock, however, these dividends will generally be subject to withholding of U.S. federal income tax at a rate of 30% of the gross amount, or any lower rate that may be specified by an applicable income tax treaty if we have received proper certification of the application of that income tax treaty. Non-U.S. holders should consult their tax advisors regarding their entitlement to benefits under an applicable income tax treaty and the manner of claiming the benefits of such treaty. A non-U.S. holder that is eligible for a reduced rate of U.S. federal withholding tax under an income tax treaty may obtain a refund or credit of any excess amounts withheld by filing an appropriate claim for a refund with the IRS.

Dividends that are effectively connected with a non-U.S. holder's conduct of a trade or business in the U.S. or, if provided in an applicable income tax treaty, dividends that are attributable to a permanent establishment (or, in the case of an individual, a fixed base) in the U.S., are not subject to U.S. withholding tax, but are instead taxed in the manner applicable to U.S. persons. In that case, we will not have to withhold U.S. federal withholding tax, provided that the non-U.S. holder complies with applicable certification and disclosure requirements. In addition, dividends received by a foreign corporation that are effectively connected with the conduct of a trade or business in the U.S. maybe subject to a branch profits tax at a 30% rate, or any lower rate as may be specified in an applicable income tax treaty.

Sale or Exchange

A non-U.S. holder will generally not be subject to U.S. federal income tax, including by way of withholding, on gain recognized on a sale, exchange or other disposition of shares of common stock unless any one of the following is true:

- the gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the U.S. and, if an applicable tax treaty applies, is attributable to a permanent establishment (or, in the case of an individual, a fixed base) maintained by the non-U.S. holder in the U.S., in which case, the branch profits tax discussed above may also apply if the non-U.S. holder is a corporation; or
- the non-U.S. holder, who is an individual, is present in the U.S. for 183 days or more in the taxable year of sale, exchange or other disposition and some additional conditions are met.

Individual non-U.S. holders who are subject to U.S. tax because the holder was present in the U.S. for 183 days or more during the year of disposition are taxed on their gains, including gains from the sale of shares of our common stock and net of applicable U.S. losses from sale or exchanges of other capital assets incurred during the year, at a flat rate of 30%. Other non-U.S. holders who may be subject to U.S. federal income tax on the disposition of our common stock will be taxed on such disposition in the manner applicable to U.S. persons.

Federal Estate Tax

Shares of common stock owned or treated as owned by an individual non-U.S. holder will be included in that non-U.S. holder's estate for U.S. federal estate tax purposes, and may be subject to U.S. federal estate tax, unless an applicable estate tax treaty provides otherwise.

Backup Withholding and Information Reporting

Under U.S. Treasury Regulations, we must report annually to the IRS and to each non-U.S. holder the amount of dividends paid to that holder and the tax withheld with respect to those dividends. These information reporting requirements apply even if withholding was not required because the dividends were effectively connected dividends or withholding was reduced or eliminated by an applicable tax treaty. Under an applicable tax treaty, that information may also be made available to the tax authorities in the country in which the non-U.S. holder resides or is established. U.S. information reporting requirements and backup withholding tax will not apply to dividends paid on our common stock to a non-U.S. holder, however, if such holder provides a Form W-8BEN (or satisfies certain documentary evidence requirements for establishing that it is not a United States person) or otherwise establishes an exemption.

The gross amount of dividends paid to a non-U.S. holder that fails to certify its non-U.S. holder status in accordance with applicable U.S. Treasury Regulations generally will be reduced by backup withholding tax at a current rate of 28%.

The payment of the proceeds of the disposition of common stock by a non-U.S. holder to or through the U.S. office of a broker generally will be reported to the IRS and reduced by backup withholding unless the non-U.S. holder either certifies its status as a non-U.S. holder in accordance with applicable U.S. Treasury Regulations or otherwise establishes an exemption and the broker has no actual knowledge, or reason to know, to the contrary. The payment of the proceeds on the disposition of common stock by a non-U.S. holder to or through a non-U.S. office of a broker generally will not be reduced by backup withholding or reported to the IRS. If, however, the broker is a U.S. person or has specified connections with the United States, unless some conditions are met, the proceeds from that disposition generally will be reported to the IRS, but not reduced by backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be refunded or credited against the non-U.S. holder’s U.S. federal income tax liability, if any, provided that certain required information is furnished to the IRS. Non-U.S. holders should consult their own tax advisors regarding the application of the information reporting and backup withholding rules to them and the availability and procedure for obtaining an exemption from backup withholding under current U.S. Treasury Regulations.

The above discussion is included for general information only. Each prospective purchaser is urged to consult its tax advisor with respect to the U.S. federal income tax and federal estate tax consequences of the ownership and disposition of our common stock, as well as the application and effect of the laws of any state, local, foreign or other taxing jurisdiction.

UNDERWRITING

Citigroup Global Markets Inc. and Goldman, Sachs & Co. are acting as joint book-running managers of the offering, and as representatives of the underwriters named below. We and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to the terms and conditions stated in that underwriting agreement dated the date of this prospectus, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the number of shares set forth opposite the underwriter's name.

Underwriter	Number of shares
Citigroup Global Markets Inc.	
Goldman, Sachs & Co.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Thomas Weisel Partners LLC	
Total	

The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the shares (other than those covered by the option described below) if they purchase any of them.

If the underwriters sell more shares than the total number set forth in the table above, we have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to additional shares of common stock at the public offering price less the underwriting discount. If any shares are purchased pursuant to this option, each underwriter must purchase a number of additional shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid by us to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of common stock.

	No Exercise	Full Exercise
Per Share	$	$
Total	$	$

The underwriters propose to offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus and some of the shares to dealers at the public offering price less a concession not to exceed $ per share. The underwriters may allow, and dealers may reallow, a concession not to exceed $ per share on sales to other dealers. If all of the shares are not sold at the initial offering price, the representatives of the underwriters may change the public offering price and the other selling terms. The representatives have advised us that the underwriters do not intend sales to discretionary accounts to exceed five percent of the total number of shares of our common stock offered by them.

Our executive officers and directors and certain of our other stockholders have agreed that, for a period of 180 days from the date of this prospectus, subject to certain extensions, they will not, without the prior written consent of Citigroup and Goldman, Sachs & Co., dispose of or hedge any shares of our common stock or any securities convertible into or exercisable or exchangeable for our common stock, subject to certain exceptions. Citigroup and Goldman, Sachs & Co., in their sole discretion, may release any of the securities subject to these lock-up agreements at any time without notice.

We have agreed not to issue, sell or otherwise dispose of any shares of our common stock during the 180-day period following the date of this prospectus (subject to certain extensions). We may, however, grant options to purchase shares of common stock and issue shares of common stock upon the exercise of outstanding options under our existing equity incentive plans, we may issue common stock upon the conversion of securities or the exercise of warrants or options outstanding, we may issue common stock in connection with an acquisition or business combination (subject to a specified maximum amount) as long as the acquiror of such common stock agrees in writing to be bound by the obligations and restrictions of our lock-up agreement and we may issue common stock to satisfy our earnout and contingent payment obligations in connection with the Inductis Acquisition.

At our request, the underwriters have reserved up to 5% of the shares of common stock offered in this offering for sale at the initial public offering price to certain persons who are our directors, officers and employees, and certain friends and family members of these persons, and certain clients and prospective clients, through a directed share program. The number of shares of common stock available for sale to the general public in this offering will be reduced by the number of directed shares purchased by participants in the program. Any directed shares not purchased will be offered by the underwriters to the general public on the same basis as all other shares of common stock offered. We have agreed to indemnify the underwriters against certain liabilities and expenses, including liabilities under the Securities Act, in connection with the sales of the directed shares.

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of shares described in this prospectus may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the shares that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant member state at any time:

- to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or
- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts or
- in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of shares described in this prospectus located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive.

For purposes of this provision, the expression an “offer to the public” in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

The sellers of the shares have not authorized and do not authorize the making of any offer of shares through any financial intermediary on their behalf, other than offers made by the underwriters with a view to the final placement of the shares as contemplated in this prospectus. Accordingly, no purchaser of the shares, other than the underwriters, is authorized to make any further offer of the shares on behalf of the sellers or the underwriters.

This prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive, which we refer to as Qualified Investors, that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or the Order, or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant persons should not act or rely on this document or any of its contents.

Each underwriter has represented, warranted and agreed that:

- (1) It has not offered or sold and will not offer or sell our common stock in Hong Kong SAR by means of this prospectus or any other document, other than to persons whose ordinary business involves buying or selling shares or debentures, whether as principal or agent or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong SAR), and (2) unless it is a person who is permitted to do so under the securities laws of Hong Kong SAR it has not issued or held for the purpose of issue in Hong Kong and will not issue or hold for the purpose of issue in Hong Kong SAR this prospectus, any other offering material or any advertisement, invitation or document relating to the common stock, otherwise than with respect to common stock intended to be disposed of to persons outside Hong Kong SAR or only to persons whose business involves the acquisition, disposal, or holding of securities, whether as principal or as agent;
- the shares offered in this prospectus have not been registered under the Securities and Exchange Law of Japan, and it has not offered or sold and will not offer or sell, directly or indirectly, the common stock in Japan or to or for the account of any resident of Japan, except (1) pursuant to an exemption from the registration requirements of the Securities and Exchange Law and (2) in compliance with any other applicable requirements of Japanese law; and
- the prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus or any other document or material in connection with the offer or sale, or invitation for subscription of purchase, of the common stock, may not be circulated or distributed, nor may the common stock be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (1) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (SFA), (2) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Prior to this offering, there has been no public market for our common stock. Consequently, the initial public offering price for the shares offered in this offering will be negotiated between us and the representatives of the underwriters. Among the factors to be considered in determining the initial public offering price will be our record of operations, our current financial condition, our future prospects, our markets, the economic conditions in and future prospects for the industry in which we compete, our management and currently prevailing general conditions in the equity securities markets, including current market valuations of publicly traded companies considered comparable to our company. The prices at which the shares will sell in the public market after this offering may be lower than the initial public offering price and an active trading market in our common stock may not develop and continue after this offering.

We have applied to list our common stock on the Nasdaq Global Market under the symbol "EXLS."

In connection with the offering, one or more of the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of common stock in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. "Covered" short sales are sales made in an amount up to the number of shares represented by the underwriters' option to purchase additional shares. The underwriters may close out any covered short position by exercising their option to purchase additional shares or purchasing shares in the open market after the distribution has been completed. In determining the source of shares to close out the covered syndicate short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through their option. The underwriters may also make "naked" short sales of shares in excess of their option. The underwriters must close out any naked short position by purchasing shares of common stock in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of shares made by the underwriters in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Citigroup or Goldman, Sachs & Co. repurchases shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the common stock and, together with the imposition of penalty bids, may stabilize, maintain or otherwise affect the market price of our shares. As a result, the price of the common stock may be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the Nasdaq Global Market or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We estimate that the total expenses of this offering, excluding discounts and commissions, will be $.

The underwriters may, from time to time, perform various financial advisory and investment banking services for us in the ordinary course of their business, for which they may receive customary fees and expenses.

A prospectus in electronic format may be made available either on the websites maintained by one or more of the underwriters or in another manner. The representatives may agree to allocate a number of shares of our common stock to underwriters for sale to their online brokerage account holders. The representatives will allocate shares of our common stock to underwriters that may make Internet distributions on the same basis as other allocations. In addition, shares of our common stock may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

LEGAL MATTERS

Paul, Weiss, Rifkind, Wharton & Garrison LLP, New York, New York, will pass on the validity of the common stock offered by this prospectus for us. Cleary Gottlieb Steen & Hamilton LLP will pass upon the validity of the common stock for the underwriters. Paul, Weiss, Rifkind, Wharton & Garrison LLP has represented the Oak Hill Partnerships and their related parties from time to time and certain members of Paul, Weiss, Rifkind, Wharton & Garrison LLP own an indirect interest in Oak Hill Capital Management Partners, L.P. Luthra & Luthra Law Offices acted as our Indian counsel.

EXPERTS

The consolidated financial statements of ExlService Holdings, Inc. at December 31, 2005 and 2004 and for each of the three years in the period ended December 31, 2005 appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements for Inductis, Inc. at December 31, 2005 and 2004 and for the years ended December 31, 2005 and 2004 appearing in this prospectus and registration statement have been audited by Russell Bedford Stefanou Mirchandani LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

ENFORCEABILITY OF JUDGMENTS

Our primary operating subsidiary is organized in India and the majority of our executive officers reside outside the United States. Most of our assets are located in India. As a result, you may be unable to effect service of process upon such persons 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 predicted solely upon the federal securities laws of the United States.

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 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 on civil liability, whether or not predicated solely upon the federal securities laws of the United States, would not be enforceable in India. However, the party in whose favor such final judgment is rendered may bring a new suit in a competent court in India based on a final judgment that has been obtained in the United States. The suit must be brought in India within three years from the date of the judgment in the same manner as any other suit filed to enforce a civil liability in India. It is unlikely that a court in India would award damages on the same basis as a foreign court if an action is brought in India. Furthermore, it is unlikely that an Indian court would enforce foreign judgments if it viewed the amount of damages awarded as excessive or inconsistent with Indian practice. In addition, a party seeking to enforce a foreign judgment in India is required to obtain approval from the Reserve Bank of India under the Foreign Exchange Management Act, 1999, to execute such a judgment or to repatriate any amount recovered.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Commission a registration statement on Form S-1 with respect to the common stock being sold in this offering. This prospectus constitutes a part of that registration statement. This prospectus does not contain all the information set forth in the registration statement and the exhibits and schedules to the registration statement, because some parts have been omitted in accordance with the rules and regulations of the Commission. For further information with respect to us and our common stock being sold in this offering, you should refer to the registration statement and the exhibits and schedules filed as part of the registration statement. Statements contained in this prospectus regarding the contents of any agreement, contract or other document referred to are not necessarily complete; reference is made in each instance to the copy of the contract or document filed as an exhibit to the registration statement. Each statement is qualified by reference to the exhibit. You may inspect a copy of the registration statement without charge at the Commission's principal office in Washington, D.C. Copies of all or any part of the registration statement may be obtained after payment of fees prescribed by the Commission from the Commission's Public Reference Room at the Commission's principal office, 100 F Street, Room 1580, N.E., Washington, D.C. 20549.

You may obtain information regarding the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The Commission maintains an Internet site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. The Commission's website address is www.sec.gov.

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Report of Independent Registered Public Accounting Firm

The Board of Directors of ExlService Holdings, Inc.

We have audited the accompanying consolidated balance sheets of ExlService Holdings, Inc. (the “Company”) as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ExlService Holdings, Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

New York, New York
February 24, 2006

A Member Practice of Ernst & Young Global

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ExlService Holdings, Inc.

Consolidated Balance Sheets

	December 31	
	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	$ 24,240,632	$ 18,760,120
Restricted cash	474,504	195,299
Accounts receivable, net of allowance for doubtful accounts of $50,000 in 2004	14,762,331	10,520,227
Employee receivables	381,604	229,022
Prepaid expenses	1,037,839	885,437
Deferred income taxes	1,165,000	—
Other current assets	959,088	2,035,208
Total current assets	43,020,998	32,625,313
Fixed assets, net	16,206,665	14,888,102
Restricted cash	210,521	36,384
Deferred income taxes	871,327	101,063
Other assets	2,266,800	2,734,717
Total assets	$ 62,576,311	$ 50,385,579
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 1,391,775	$ 1,815,751
Deferred revenue	7,608,889	3,486,917
Accrued employee cost	3,408,714	3,541,344
Other accrued expenses and current liabilities	6,319,374	4,415,191
Income taxes payable	777,643	757,558
Current portion of capital lease obligation	215,150	178,880
Total current liabilities	19,721,545	14,195,641
Senior long-term debt	5,583,499	5,364,581
Preferred stock, $.001 par value, 55,000 shares authorized: 45,833.36 shares designated as Series A redeemable shares; 45,304 shares issued and outstanding	—	5,597,359
Capital lease obligations, less current portion	256,300	395,675
Total liabilities	25,561,344	25,553,256
Preferred stock, $.001 par value; 55,000 shares authorized:		
45,833.36 shares designated as Series A redeemable shares; 45,304 shares issued and outstanding (liquidation preference $6,183,584 at December 31, 2005)	6,071,084	—
Stockholders' equity:		
Common stock, $0.001 par value: 12,000,000 shares authorized:		
10,196,878 shares designated as Series A; 10,081,778 shares issued and outstanding	10,082	10,082
1,264,538 shares designated as Series B; 583,479 shares and 529,369 shares issued at December 31, 2005 and 2004, respectively	583	529
Additional paid-in capital	17,102,069	17,198,127
Deferred stock based compensation	(200,188)	(441,889)
Retained earnings	15,235,424	8,425,314
Accumulated other comprehensive loss	(1,189,628)	(345,381)
	30,958,342	24,846,782
Less 61,414 shares of Series B common stock held in treasury, at cost	(14,459)	(14,459)
Total stockholders' equity	30,943,883	24,832,323
Total liabilities and stockholders' equity	$ 62,576,311	$ 50,385,579

See accompanying notes.

ExlService Holdings, Inc.

Consolidated Statements of Operations

	Year ended December 31		
	2005	2004	2003
Revenues	$ 73,419,952	$ 60,440,646	$ 27,771,359
Revenues (from related parties)	533,840	26,000	—
Total revenues	73,953,792	60,466,646	27,771,359
Cost of revenues (exclusive of depreciation and amortization)	47,597,523	38,716,017	18,443,205
Gross profit	26,356,269	21,750,629	9,328,154
Operating expenses:			
General and administrative expenses	13,200,239	11,085,273	7,891,083
Selling and marketing expenses	1,685,020	1,456,153	1,104,482
Depreciation and amortization	5,888,975	3,909,098	420,719
Total operating expenses	20,774,234	16,450,524	9,416,284
Income (loss) from operations	5,582,035	5,300,105	(88,130)
Other income (expense):			
Foreign exchange gain	942,486	774,195	444,733
Interest and other income	693,538	258,583	214,942
Interest expense	(408,732)	(332,594)	(277,331)
Interest expense—redeemable preferred stock	(396,787)	(598,409)	(281,970)
Income before income taxes	6,412,540	5,401,880	12,244
Income tax (benefit) provision	(647,008)	21,584	769,554
Net income (loss)	7,059,548	5,380,296	(757,310)
Dividends and accretion on preferred stock	(249,438)	—	(258,131)
Net income (loss) to common stockholders	$ 6,810,110	$ 5,380,296	$ (1,015,441)
Basic earnings (loss) per share to common stockholders	$ 0.64	$ 0.52	$ (0.10)
Diluted earnings (loss) per share to common stockholders	$ 0.63	$ 0.51	$ (0.10)
Weighted-average number of shares used in computing earnings per share:			
Basic[(1)]	10,587,274	10,259,166	9,784,420
Diluted[(1)]	10,795,514	10,508,626	9,784,420

(1) The weighted average number of shares used in computing earnings (loss) per share for the years ended December 31, 2005, 2004 and 2003 includes Series A and Series B common stock.

See accompanying notes.

ExlService Holdings, Inc.

Consolidated Statements of Stockholders' Equity

	Series A Common Stock Shares	Series A Common Stock Amount	Series B Common Stock Shares	Series B Common Stock Amount	Additional Paid-in Capital	Deferred Stock Based Compensation	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance as of December 31, 2002	9,555,462	$ 9,555	—	$ —	$ 2,091,517	$ —	$4,060,459	$ 16,414	$ —	$ 6,177,945
Series B common stock and options issued to management	—	—	444,538	445	114,168	—	—	—	—	114,613
Deferred stock based compensation	—	—	—	—	170,299	(170,299)	—	—	—	—
Amortization of deferred compensation	—	—	—	—	—	15,295	—	—	—	15,295
Acquisition of treasury stock (Series B common stock)	—	—	—	—	—	—	—	—	(2,108)	(2,108)
Dividends and accretion on preferred stock	—	—	—	—	—	—	(258,131)	—	—	(258,131)
Comprehensive loss:										
Translation adjustments	—	—	—	—	—	—	—	(369,455)	—	(369,455)
Net loss	—	—	—	—	—	—	(757,310)	—	—	(757,310)
Total comprehensive loss										(1,126,765)
Balance as of December 31, 2003	9,555,462	9,555	444,538	445	2,375,984	(155,004)	3,045,018	(353,041)	(2,108)	4,920,849
Series A common stock issued (net of issuance cost of $37,374)	526,316	527	—	—	12,462,100	—	—	—	—	12,462,627
Series B common stock and options issued to management	—	—	84,831	84	114,892	—	—	—	—	114,976
Non-employee options	—	—	—	—	1,853,601	—	—	—	—	1,853,601
Deferred employee stock based compensation	—	—	—	—	423,775	(423,775)	—	—	—	—
Employee stock options forfeited	—	—	—	—	(32,225)	32,225	—	—	—	—
Amortization of deferred compensation	—	—	—	—	—	104,665	—	—	—	104,665
Acquisition of treasury stock (Series B common stock)	—	—	—	—	—	—	—	—	(12,351)	(12,351)
Comprehensive income:										
Translation adjustments	—	—	—	—	—	—	—	21,698	—	21,698
Minimum pension liability	—	—	—	—	—	—	—	(14,038)	—	(14,038)
Net income	—	—	—	—	—	—	5,380,296	—	—	5,380,296
Total comprehensive income										5,387,956
Balance as of December 31, 2004	10,081,778	10,082	529,369	529	17,198,127	(441,889)	8,425,314	(345,381)	(14,459)	24,832,323

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ExlService Holdings, Inc.

Consolidated Statements of Stockholders' Equity (continued)

	Series A Common Stock Shares	Series A Common Stock Amount	Series B Common Stock Shares	Series B Common Stock Amount	Additional Paid-in Capital	Deferred Stock Based Compensation	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance as of December 31, 2004	10,081,778	$10,082	529,369	$ 529	$17,198,127	$ (441,889)	$ 8,425,314	$ (345,381)	$(14,459)	$24,832,323
Series B common stock and options issued to management	—	—	54,110	54	12,296	—	—	—	—	12,350
Non-employee options	—	—	—	—	67,390	—	—	—	—	67,390
Employee stock options forfeited	—	—	—	—	(175,744)	175,744	—	—	—	—
Dividends and accretion on preferred stock	—	—	—	—	—	—	(249,438)	—	—	(249,438)
Amortization of deferred compensation	—	—	—	—	—	65,957	—	—	—	65,957
Comprehensive income:										
Translation adjustments	—	—	—	—	—	—	—	(186,011)	—	(186,011)
Minimum pension liability	—	—	—	—	—	—	—	14,038	—	14,038
Cash flow hedges	—	—	—	—	—	—	—	(697,642)	—	(697,642)
Net Income	—	—	—	—	—	—	7,059,548	—	—	7,059,548
Reclassification adjustment:										
Cash flow hedges	—	—	—	—	—	—	—	25,368	—	25,368
Total comprehensive income										6,215,301
Balance as of December 31, 2005	10,081,778	$10,082	583,479	$ 583	$17,102,069	$ (200,188)	$15,235,424	$ (1,189,628)	$(14,459)	$30,943,883

See accompanying notes.

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ExlService Holdings, Inc.

Consolidated Statements of Cash Flows

	Year ended December 31		
	2005	2004	2003
Cash flows from operating activities			
Net income (loss)	$ 7,059,548	$ 5,380,296	$ (757,310)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	5,888,975	3,909,098	420,719
Interest expense—redeemable preferred stock	396,787	598,409	281,970
Amortization of deferred financing costs	60,000	60,000	67,500
Amortization of deferred stock compensation and other non-cash compensation	253,136	675,173	237,977
Interest on senior long term debt	218,918	210,110	197,021
Non-employee stock options	425,806	360,494	1,750
Foreign exchange gain (unrealized)	(217,537)	—	—
Deferred income taxes	(1,935,264)	(101,063)	—
Gain on sale of fixed assets	16,972	(6,705)	—
Bad debt expense (recovery)	—	—	(250,000)
Change in operating assets and liabilities (net of effect of acquisitions):			
Restricted cash	(453,342)	42,874	1,308,422
Accounts receivable	(4,242,104)	(5,258,055)	(4,714,544)
Prepaid expenses and other current assets	711,136	(2,417,740)	581,473
Accounts payable	(349,323)	648,920	(1,373,678)
Deferred revenue	4,121,972	1,569,918	416,999
Other accrued expenses and other current liabilities	1,462,415	3,820,920	1,586,054
Income taxes payable	(24,974)	4,779	686,159
Other assets	(250,178)	385,015	(572,787)
Net cash provided by (used in) operating activities	13,142,943	9,882,443	(1,882,275)
Cash flows from investing activities			
Purchase of fixed assets (net of sale proceeds)	(7,126,518)	(12,336,918)	(5,405,780)
Net cash used in investing activities	(7,126,518)	(12,336,918)	(5,405,780)
Cash flows from financing activities			
Proceeds from issuance (payment on redemption) of senior long-term debt	—	(13,239)	272,403
Principal payments on capital lease obligations	(103,105)	(104,437)	(16,360)
Proceeds from issuance (payment on redemption) of preferred stock	—	(13,709)	252,400
Net proceeds from common stock transactions	12,350	—	99,905
Proceeds from sale of Series A common stock, net of issuance costs	—	12,462,627	—
Proceeds from exercise of stock options	—	114,976	—
Purchase of Series B common stock at cost	—	(12,351)	—
Net cash (used in) provided by financing activities	(90,755)	12,433,867	608,348
Effect of exchange rate changes on cash and cash equivalents	(445,158)	131,452	(364,531)
Net increase (decrease) in cash and cash equivalents	5,480,512	10,110,844	(7,044,238)
Cash and cash equivalents at the beginning of the year	18,760,120	8,649,276	15,693,514
Cash and cash equivalents at the end of the year	$ 24,240,632	$ 18,760,120	$ 8,649,276
Supplemental disclosure of cash flow information			
Cash paid for interest	$ 68,666	$ 44,798	$ 18,800
Cash paid for taxes	1,052,429	103,724	87,100
Supplemental disclosure of non-cash information			
Assets acquired under capital lease	163,310	704,811	4,242

See accompanying notes.

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements
December 31, 2005

1. Organization

Organization

ExlService Holdings, Inc. ("Exl Holdings") is organized as a corporation under the laws of the state of Delaware. Exl Holdings, together with its subsidiaries ExlService.com, Inc. ("Exl Inc"), ExlService.com (India) Private Limited ("Exl India"), Noida Customer Operations Private Limited ("NCOP"), Exl Support Services Pvt. Ltd. ("ESSPL") and ExlService (U.K.) Limited ("Exl UK") (collectively, the "Company"), are principally engaged in the business of developing and deploying business process outsourcing solutions, including transaction-processing services and Internet and voice-based customer care services for its clients primarily in India. The Company's clients are located principally in the United States and the United Kingdom.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Exl Holdings and its subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Foreign Currency

The functional currency of Exl Holdings and Exl Inc is the United States Dollar ("U.S. Dollar"), being the currency of the primary economic environment in which they operate. The functional currency of Exl India, NCOP and ESSPL is Indian Rupees and for Exl U.K., it is the Pound Sterling, being the currency of primary economic environment in which they operate. Monetary assets and liabilities in foreign currencies are re-measured into functional currency at the rates of exchange prevailing at the balance sheet dates. Transactions in foreign currencies are re-measured into functional currency at the rates of exchange prevailing on the date of the transaction. All transaction foreign exchange gains and losses are recorded in the accompanying consolidated statements of operations.

In respect of the subsidiaries for which the functional currency is other than U.S. Dollar, the assets and liabilities of such subsidiaries are translated into U.S. Dollars, the reporting currency, at the rate of exchange prevailing on the balance sheet date. Revenues and expenses are translated into U.S. Dollars at average exchange rates prevailing during the period. Resulting translation adjustments are included in accumulated other comprehensive income (loss).

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist solely of funds held in general checking accounts and money market accounts.

Fixed Assets

Fixed assets are stated at cost. Equipment held under capital leases is stated at the present value of minimum lease payments at the inception of the leases. Advances paid towards acquisition of fixed assets and the cost of fixed assets not ready for use before the end of the period, are classified as construction in progress.

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

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

Revenue Recognition

Revenues from business process outsourcing services include revenue from processing of transactions and services provided through voice and Internet communication channels. Revenue from the advisory services includes revenue from various consulting services such as Sarbanes-Oxley compliance, internal audit and financial reporting.

The Company recognizes revenue as services are rendered, provided that persuasive evidence of an arrangement exists, there are no remaining obligations with respect to the services rendered and collection is considered probable. The Company invoices clients in accordance with the agreed upon rates and billing arrangements, which consist of time and materials, cost plus and unit priced arrangements. The Company recognizes revenue from the last billing date to the balance sheet date as unbilled revenues and recognizes billings in excess of revenues earned or advances received from clients as deferred revenue.

In accordance with EITF 01-14, "Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred," the Company has accounted for reimbursements received for out-of-pocket expenses incurred as revenues in the consolidated statements of operations. The Company typically incurs telecommunications and travel related costs that are billed to and reimbursed by clients.

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

Year ended December 31, 2005	$ 3,398,750
Year ended December 31, 2004	4,182,638
Year ended December 31, 2003	555,372

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Pursuant to a transition/wind-down services agreement executed with a customer on November 14, 2002, the Company contracted to provide wind-down and transition services over the four-month period from December 1, 2002 to March 31, 2003. Revenue for the year ended December 31, 2003 includes approximately $1,500,000 for the services rendered to this customer pursuant to the transition/wind-down services agreement. Revenue from services provided to this customer represented 18% of total revenues on the consolidated statement of operations for the year ended December 31,2003.

For the year ended December 31, 2005, two clients accounted for 49% and 15% of the Company's total revenues, respectively. These same two clients accounted for 52% and 24% of the Company's total revenues for the year ended December 31, 2004, respectively, and accounted for 43% and 31% of the Company's total revenues for the year ended December 31,2003, respectively.

Segment Information

The Company is generally organized around its business process outsourcing service and its advisory service lines. These service lines do not have operating managers who report to the chief operating decision maker. The chief operating decision maker generally reviews financial information at consolidated results of operations level but does not review any information except for revenues and cost of revenues of the individual service lines. Therefore, the Company does not allocate or evaluate depreciation, amortization, interest expense or income, capital expenditures, and income taxes into its various service lines. Consequently, it is not practical to show assets, capital expenditures, depreciation or amortization by operating segment.

Revenues and the cost of revenues from business processing outsourcing services and advisory services were as follows:

	2005			2004			2003		
	BPO	Advisory Services	Total	BPO	Advisory Services	Total	BPO	Advisory Services	Total
Revenue	$ 66,200,736	$ 7,753,056	$ 73,953,792	$ 55,764,990	$ 4,701,656	$ 60,466,646	$ 27,649,509	$ 121,850	$ 27,771,359
Cost of revenue (exclusive of depreciation and amortization)	43,540,498	4,057,025	47,597,523	36,040,722	2,675,295	38,716,017	18,351,060	92,145	18,443,205
Gross Profit	$ 22,660,238	$ 3,696,031	$ 26,356,269	$ 19,724,268	$ 2,026,361	$ 21,750,629	$ 9,298,449	$ 29,705	$ 9,328,154
Depreciation and amortization	—	—	5,888,975	—	—	3,909,098	—	—	420,719
Interest and other income	—	—	693,538	—	—	258,583	—	—	214,942
Interest expense	—	—	(408,732)	—	—	(332,594)	—	—	(277,331)
Interest expense—redeemable preferred stock	—	—	(396,787)	—	—	(598,409)	—	—	(281,970)
Income tax (benefit) provision	$ —	$ —	$ (647,008)	$ —	$ —	$ 21,584	$ —	$ —	$ 769,554

Cost of Revenues

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

Income Taxes

The Company accounts for income taxes pursuant to the provisions of Statement of Financial Accounting Standards No. 109 "*Accounting for Income Taxes*." Under SFAS No. 109, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases. Any deferred tax assets recognized for net operating

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

loss carryforwards and other items are reduced by a valuation allowance when it is more likely than not that the benefits may not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that the tax change occurs. Deferred taxes are not provided on the undistributed earnings of subsidiaries outside the United States where it is expected that the earnings of the foreign subsidiary will be permanently reinvested.

Employee Benefits

In accordance with Indian law, all employees of the Company in India are entitled to receive benefits under the Government Provident Fund, a defined contribution plan in which both the employee and the Company contribute monthly at a determined rate (currently 12% of the employee's base salary). These contributions are made to the Government Provident Fund.

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

Accumulated Other Comprehensive Income

SFAS No. 130, "*Reporting Comprehensive Income*" establishes rules for the reporting of comprehensive income and its components. Comprehensive income is defined as all changes in equity from non-owner sources. For the Company, comprehensive income (loss) consists of net earnings and changes in the cumulative foreign currency translation adjustments and minimum pension liability adjustments. In addition, the Company enters into foreign currency exchange contracts, which are designated as cash flow hedges in accordance with SFAS No 133, "*Accounting for Derivative Instruments and Hedging Activities*." Changes in the fair values of contracts that are deemed effective are recorded as a component of accumulated other comprehensive income (loss) until the settlement of that contract. The Company reports comprehensive income (loss) in the consolidated statements of stockholders' equity.

Financial Instruments and Concentration of Credit Risk

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

Concentration of Credit Risk: Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, accounts receivable and time deposits. By their nature, all such financial instruments involve risks, including the credit risks of non-performance by counterparties.

Derivatives and Hedge Accounting: In the Company's normal course of business, the Company actively looks to mitigate the exposure of foreign currency market risk by entering into various hedging instruments, authorized under Company polices with counterparties that are highly-rated financial institutions. The Company's primary exchange rate exposure is with the British pound and Indian rupee. The Company uses derivative instruments for

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

the purpose of mitigating the underlying exposure from foreign currency fluctuation risks associated with forecasted transactions denominated in certain foreign currencies and to minimize earnings and cash flow volatility associated with the changes in foreign currency exchange rates, and not for speculative trading purposes. The Company also hedges anticipated transactions that are subject to foreign exchange exposure with foreign exchange contracts that are designated effective and qualify as cash flow hedges, under SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*". Changes in the fair value of these cash flow hedges which are deemed effective, are recorded in accumulated other comprehensive income (loss) until the contract is settled and at that time are recognized in the consolidated statements of operations. The Company evaluates hedge effectiveness at the time a contract is entered into as well as on an ongoing basis. If during this time, a contract is deemed ineffective, the change in the fair value is recorded in the consolidated statements of operations.

The Company entered into forward exchange contracts during the years ended December 31, 2005, 2004 and 2003. At December 31, 2005, forward exchange contracts of $44.5 million and GBP 8.2 million were outstanding. At December 31, 2004, forward exchange contracts of $11.3 million were outstanding and there were no contracts outstanding at December 31, 2003. The fair value of such contracts outstanding at December 31, 2005 and 2004 was $0.5 million and $0.1 million, respectively.

The Company has evaluated the effectiveness of all forward exchange contracts. For the year ended December 31, 2005, net gains from ineffective cash flow hedges included in the consolidated statement of operations totaled $1,352,883. For hedge relationships discontinued because the forecasted transaction is not expected to occur by the end of the originally specified period, any related derivative amounts recorded in equity are reclassified to earnings.

Stock Based Compensation

Stock Based Compensation: In fiscal 2003, the Company instituted the Exl Holdings 2003 Stock Option Plan (the "2003 Plan"). The 2003 Plan covers all the employees of the Company and its subsidiaries. The Compensation Committee of the Board (the "Committee") administers the 2003 Plan and grants stock options to eligible employees of the Company and its subsidiaries.

The Committee determines which employees are eligible to receive the options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for the options issued on the date of the grant and is non-transferable during the life of the option. The options generally vest incrementally over a period of four years from the date of grant with 25% of the options vesting each year. Pursuant to the 2003 Plan, the Company has reserved 800,000 shares of Series B common stock for the granting of options.

The Company uses Accounting Principles Board ("APB") Opinion No. 25 and related interpretations to account for stock options granted to its employees. Accordingly, compensation cost is recognized only for stock option awards granted where the exercise price is less than the market value on the date of grant.

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Had the compensation cost been recognized based on the fair value at the date of grant in accordance with Statement of Financial Accounting Standards No. 123, “Accounting for Stock Based Compensation” as amended by Statement of Financial Accounting Standards No. 148, “Accounting for Stock-Based Compensation —Transition and Disclosure”, the pro-forma amounts of net income (loss) would have been as follows:

	Year ended December 31		
	2005	2004	2003
Net income (loss) to common stockholders	$ 6,810,110	$ 5,380,296	$ (1,015,441)
Add stock based employee compensation expense included in reported net income	65,957	104,665	10,405
Less stock based employee compensation expense determined under the fair value method	(464,715)	(268,240)	(10,818)
Pro forma net income (loss) to common stockholders	$ 6,411,352	$ 5,216,721	$ (1,015,854)

	Year ended December 31		
	2005	2004	2003
Basic and diluted earnings (loss) per share to common stockholders:			
Basic, as reported	$ 0.64	$ 0.52	$ (0.10)
Diluted, as reported	$ 0.63	$ 0.51	$ (0.10)
Basic, pro forma	$ 0.61	$ 0.51	$ (0.10)
Diluted, pro forma	$ 0.59	$ 0.50	$ (0.10)

The fair value of each option is estimated on the date of grant using the Black-Scholes option valuation model with the following assumptions:

	Year ended December 31		
	2005	2004	2003
Dividend yield	0%	0%	0%
Expected life	60 months	60 months	60 months
Risk free interest rate	4.25%	4%	4%
Volatility	50%	50%	50%

Earnings Per Share

Basic earnings per share is computed by dividing net income (loss) to common stockholders by the weighted average number of common shares outstanding during each period. In determining the income to common stockholders, net income has been reduced by dividends and accretion on preferred stock. Diluted earnings per share are computed using the weighted average number of common shares plus the potentially dilutive effect of common stock equivalents. Stock options that are anti-dilutive are excluded from the computation of weighted average shares outstanding. For the years ended December 31, 2005 and 2004, the weighted average number of shares used in calculating diluted earnings per share includes stock options of 143,283 and 249,460, respectively. The calculation of earnings per share for the years ended December 31, 2005, 2004 and 2003 exclude stock options of 329,875, 142,000 and 376,275, respectively, because to include them in the calculation would be antidilutive.

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), "*Share-Based Payments*", which establishes standards for transactions in which an entity exchanges its equity for goods or services. This statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This eliminates the exception to account for such awards using the intrinsic value method previously allowable under APB Opinion No. 25. SFAS No. 123(R) will be effective for the Company for reporting periods beginning on January 1, 2006.

The Company plans to adopt SFAS 123(R) using the modified prospective method. Under the modified prospective method, compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.

As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using APB Opinion 25's intrinsic value method and, as such, generally recognizes compensation cost for employee stock options where the exercise price is less than the fair value on the date of grant. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have a significant impact on its consolidated results of operations, although it will have no impact on its overall consolidated financial position. The impact of the adoption of SFAS No. 123(R) will depend on levels of share-based payments granted in the future and the rate of forfeiture of unvested grants. However, had the Company adopted SFAS No. 123(R) in prior periods, the impact of that statement would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income (loss) and earnings (loss) per share.

The Company currently believes that stock-based compensation expense for the year ended December 31, 2006 related to share-based payments granted prior to January 1, 2006 and unvested as of that date will be approximately $700,000.

In December 2004, the FASB issued SFAS No. 153, "*Exchanges of Nonmonetary Assets*", which eliminated the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 will be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not believe the adoption of SFAS No. 153 will have a material impact on its consolidated financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, "*Accounting Changes & Error Corrections*", which provided guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. This statement also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. SFAS No. 154 will be effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The Company does not believe the adoption of SFAS No. 154 will have a material impact on its consolidated financial position, results of operations or cash flows.

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

3. Restriction on Cash Balances and Time Deposits

Current restricted time deposits of Exl India represent amounts on deposit with banks against letters of credit and bank guarantees issued by the Company for equipment imports amounting to $474,504 that will mature on various dates in 2006.

Non-current restricted time deposits represent guarantees against custom and excise bonding issued through banks amounting to $210,521 that will mature between 2007 and 2008.

4. Fixed Assets

Fixed assets consist of the following:

	Estimated Useful Life (Years)	December 31 2005	December 31 2004
Network equipment, cabling and computers	3	$13,310,963	$10,449,806
Leasehold improvements	3-5	4,966,353	3,634,048
Office furniture and equipment	3-5	2,313,948	1,887,046
Motor vehicles	3	778,273	789,761
Construction in progress		4,889,348	2,595,106
		26,258,885	19,355,767
Less accumulated depreciation and amortization		10,052,220	(4,467,665)
		$16,206,665	$14,888,102

Construction in progress represents advances paid towards acquisition of fixed assets and the cost of fixed assets not yet placed in service. The cost and accumulated amortization of assets under capital leases at December 31, 2005 is $778,273 and $361,829, respectively, and at December 31, 2004, $789,761 and $166,661, respectively.

During 2005, the Company conducted an evaluation of the useful life of its leasehold improvements. At the time the Company entered into those leases, it was not able to estimate how long these premises would be occupied and based on that, made the assumption that a useful life of 36 months was appropriate. As a result of this review and the success of the Company's business model, the Company believes that it will remain in these facilities through at least a further 60 months. Based on that evaluation, which included a review of the respective lease contracts and the remaining useful life of those assets, the Company determined that the useful life of the assets that had been capitalized under the leasehold improvements asset category was 60 months versus 36 months. As a result, at April 1, 2005 the Company changed the useful life to 60 months. This change impacted (1) all new leasehold assets purchased from April 1, 2005 forward and (2) the amortization expense to be recognized for periods starting April 1, 2005 of leasehold assets put into place prior to April 1, 2005 that were not fully amortized.

The change in estimated useful life of leasehold improvements resulted in amortization expense being approximately $554,000 less in 2005 than what it would have been had the estimated useful life not changed.

5. Senior Long-Term Debt

On December 13, 2002, certain new investors and members of management acquired senior promissory notes issued by the Company totaling $4,674,000. The senior promissory notes mature on December 13, 2007. The Company issued additional senior promissory notes to employees of the Company during August 2003 in the

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

5. Senior Long-Term Debt (continued)

amount of $272,403. Interest on the principal amount is payable on maturity and accrues at a rate equal to the greater of (i) 2.02% semiannually or (ii) LIBOR. The Company redeemed promissory notes including accrued interest of $13,239 in 2004.

The effective interest rate for the years ended December 31, 2005 and 2004 was 4.08%. Accrued interest at December 31, 2005 and 2004 included in senior long-term debt on the consolidated balance sheets is $650,335 and $431,417, respectively.

Deferred financing costs, totaling $300,000, are included in other assets and are being amortized to interest expense through the maturity date of the senior long-term debt. For the years ended December 31, 2005, 2004 and 2003, amortization of deferred financing costs amounted to $60,000, $60,000 and $67,500, respectively.

6. Redeemable Preferred Stock

Holders of redeemable preferred stock are not permitted or entitled to vote on any matter required or permitted to be voted on by the stockholders of the Company. Holders of redeemable preferred stock have superior liquidation rights compared to the common stockholders. In the event of liquidation, dissolution or winding up of the operations of the Company, the redeemable preferred stockholders are entitled to receive a liquidation preference in the distribution of assets. Liquidation preference is equal to $100 per share plus any accrued and unpaid dividends.

Holders of redeemable preferred stock are entitled to receive annual dividends, as and when declared by the Company out of funds legally available equal to 10% of the liquidation preference per share. Such dividends are payable, at the election of the Company, in cash or in the form of an additional liquidation preference and accrue annually, but are to be paid only upon redemption, liquidation or as otherwise declared by the Company. Such dividends are cumulative and accrue on a day-to-day basis, whether or not earned. Cumulative dividends in arrears at December 31, 2005 amounted to $1,653,184.

The Company may, at its option at any time, redeem all of the redeemable preferred stock by giving adequate notice to the holders of redeemable preferred stock. Upon the occurrence of a mandatory redemption event, holders of the redeemable preferred stock can cause redemption of all the redeemable preferred stock outstanding. On August 16, 2005, the Company amended certain provisions of the preferred stock agreement relating to mandatory redemption events to (i) remove a provision stating that upon the resignation by, or other termination of employment of, Vikram Talwar or Rohit Kapoor, the holders of the redeemable preferred stock may require the Company to redeem the preferred stock and (ii) remove the automatic redemption provisions of the preferred stock agreement. Thereafter, mandatory redemption events include (i) breach in any material respect of warranties and representations made by Conseco, Inc. (the former parent) under the stock purchase agreement dated November 14, 2002 and (ii) any material adverse change in the condition, financial or otherwise, business, properties, assets, results of operations or prospects of the Company or any of its subsidiaries. In all instances, the redemption events are conditional and the redemption amount will be the liquidation preference.

On May 15, 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equities.* This statement requires, among other things, that any of various financial instruments that are issued in the form of shares that are mandatorily redeemable on a fixed or determinable date be classified as liabilities, any dividends paid on the underlying shares be treated as interest

6. Redeemable Preferred Stock (continued)

expense, and issuance costs should be deferred and amortized using the interest method. SFAS No. 150 is effective for all financial instruments created or modified after May 31, 2003, and is effective July 1, 2003 for the Company. As required by SFAS No. 150, accrued and unpaid dividends in fiscal years prior to adoption of SFAS No. 150 have not been reclassified to interest expense. Such amount, totaling $223,131 for the six months ended June 30, 2003, is included in dividends and accretion on preferred stock in the consolidated statements of operations. Effective July 1, 2003, dividends on the redeemable preferred stock have been classified as interest expense. For the years ended December 31, 2005, 2004 and 2003, the Company has recorded $359,308, $538,409 and $249,470, respectively, of redeemable preferred stock dividends as interest expense. As a result of the amended provisions, effective August 16, 2005 accrued dividends of $226,917 are no longer included in interest expense but are included in dividends and accretion on preferred stock in the consolidated statements of operations.

The preferred stock is recorded net of issuance costs of $300,000, which are accreted over a period of five years. For the years ended December 31, 2005, 2004 and 2003, amortization of issuance costs included in interest expense—redeemable preferred stock amounted to $37,479, $60,000 and $32,500, respectively. For the years ended December 31, 2005 and 2003, amortization of issuance costs included in dividends and accretion on preferred stock amounted to $22,521 and $35,000, respectively.

The redeemable preferred stock is carried at the amount of cash that would be paid under the respective agreement if the shares were repurchased or redeemed at the reporting date less unamortized issuance costs of $112,500 and $172,500 at December 31, 2005 and 2004, respectively.

The Company redeemed and retired preferred stock amounting to $13,709 in 2004.

7. Capital Structure

Common Stock

Holders of Series A common stock have one vote for each share held with respect to all matters voted on by the stockholders of the Company. Holders of Series B common stock do not have any voting rights.

Prior to the occurrence of a conversion event, as defined in the Company’s Certificate of Incorporation, the Series B common stock will be converted into Series A common stock initially at a ratio of 1:1. Among other things, a conversion event includes the consummation of a sale of common stock in a public offering, as defined.

In July 2004, NUI Investment Limited, a significant client, purchased 526,316 shares of Series A common stock for $12,500,000. Net proceeds to the Company were $12,462,627.

8. Employee Benefit Plans

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 the Company. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation. Current service costs for the Gratuity Plan are accrued in the year to which they relate.

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

8. Employee Benefit Plans (continued)

The following table sets forth the activity and the funded status of the Gratuity Plan and the amounts recognized in the Company's consolidated financial statements at the end of the relevant periods:

	December 31	
	2005	2004
Change in projected benefit obligation		
Benefit obligation at the beginning of the year	$395,454	$188,595
Service cost	208,056	140,394
Interest cost	20,166	9,517
Benefits paid	(76,078)	(48,914)
Actuarial loss	6,319	91,589
Effect of exchange rate changes	(7,659)	14,273
Projected benefit obligation at the end of the year	$546,258	$395,454
Unfunded amount	$546,258	$395,454
Accrued liability	$524,152	$336,763
Accumulated benefit obligation	$435,576	$336,763
Unrecognized net actuarial loss	$ 23,883	$ 72,729

On September 15, 2005, the Company modified the eligibility criteria of the Company's Gratuity Plan changing the minimum period of continuous service for eligibility under the Company's Gratuity Plan to five years from two years. The change in the service period was effective immediately for all new employees starting on or after September 15, 2005.

Net gratuity cost includes the following components:

	Year ended December 31		
	2005	2004	2003
Service cost	$208,056	$140,394	$ 94,226
Interest cost	20,166	9,517	10,938
Actuarial loss (gain)	54,085	18,860	(40,749)
Net gratuity cost	$282,307	$168,771	$ 64,415

During 2005, 2004 and 2003 for the above calculations, a discount rate of 8% has been assumed and salaries are assumed to increase at the rate of 8%, 7% and 8% per annum, respectively.

In 2003, the Company established the ExlService Inc 401(k) Plan (the "401(k) Plan") under Section 401(k) of the Internal Revenue Code covering all eligible employees, as defined. The Company may make discretionary contributions of up to a maximum of 3% of employee compensation within certain limits. The Company's contribution to the 401(k) Plan amounted to $42,812, $29,569 and $6,457 in 2005, 2004 and 2003, respectively.

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

8. Employee Benefit Plans (continued)

The Company contributes to the Government Provident Fund (a defined contribution plan) on behalf of its employees in India. The assets held by the Government Provident Fund are not reported on the Company's consolidated balance sheets. The contributions made to the Government Provident Fund for each year are as follows:

Year ended December 31, 2005	$ 819,912
Year ended December 31, 2004	603,323
Year ended December 31, 2003	393,587

9. Leases

Exl India leases motor vehicles from finance companies. Such leases are recorded as capital leases with interest rates ranging from 9.0% to 12.5%. Future minimum lease payments under these capital leases at December 31, 2005 are as follows:

Year ended December 31:	
2006	$ 260,648
2007	178,511
2008	94,839
Total minimum lease payments	533,998
Less amount representing interest	62,548
Present value of minimum lease payments	471,450
Less current portion	215,150
Long term capital lease obligation	$ 256,300

The Company conducts its operations using facilities, office furniture and certain equipment leased under non-cancelable operating lease agreements that expire at various dates through 2009. Future minimum lease payments under these non-cancelable agreements are as follows:

Year ended December 31:	
2006	$ 781,000
2007	444,000
2008	385,000
2009	96,000
Total minimum lease payments	$ 1,706,000

Rent expense under operating leases was $2,453,121, $1,646,367 and $817,400 for the years ended December 31, 2005, 2004 and 2003, respectively.

10. Income Taxes

The fiscal year under the Indian Income Tax Act ends on March 31. A portion of the Company's Indian operations qualify for deduction from taxable income because its profits are attributable to undertakings situated in Export Processing Zones. This deduction is available for a period of ten consecutive years beginning from the

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

10. Income Taxes (continued)

year in which the respective undertaking commenced commercial operations. Accordingly, Exl India and NCOP can benefit from this deduction. This deduction shall terminate if the Company ceases to be an undertaking situated in Export Processing Zones. ESSPL is not eligible for this deduction.

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

Since export revenue of Exl India qualifies for a deduction from taxable income, being profits attributable to undertakings situated in Export Processing Zones until March 2009, a substantial portion of the temporary differences would not have any tax consequences as they will reverse within the tax holiday period.

Income (loss) before income taxes are as follows:

	Year ended December 31		
	2005	2004	2003
Domestic	$ 611,206	$ 267,044	$ (2,009,204)
Foreign	5,801,334	5,134,836	2,021,448
	$ 6,412,540	$ 5,401,880	$ 12,244

The (benefit) provision for income taxes consists of the following:

	Year ended December 31		
	2005	2004	2003
Current provision:			
Domestic	$ 1,091,491	$ 50,000	$700,000
Foreign	199,939	72,647	69,554
	1,291,430	122,647	769,554
Deferred benefit:			
Domestic	(1,919,000)	—	—
Foreign	(19,438)	(101,063)	—
	(1,938,438)	(101,063)	—
	$ (647,008)	$ 21,584	$769,554

The foreign income tax provision represents current taxes on non-exempt income in India and certain withholding taxes. The Company's current income tax expense was reduced by approximately $808,000 as a result of using available net operating loss carryforwards.

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

10. Income Taxes (continued)

The significant components of the net deferred income tax assets and liabilities are approximately as follows:

	December 31	
	2005	**2004**
Deferred tax assets:		
Net operating loss carryforwards	$ —	$ 916,000
AMT credit carryforward	832,000	750,000
Accounts receivable allowances	—	22,000
Accrued expenses	—	65,000
Unrealized exchange loss	116,000	—
Deferred revenue	741,000	—
Depreciation and amortization	39,000	—
Deferred compensation	308,000	326,000
Total gross deferred tax assets	2,036,000	2,079,000
Deferred tax liabilities:		
Unrealized exchange gain	—	82,000
Depreciation and amortization	—	152,000
Total gross deferred tax liabilities	—	234,000
Valuation allowance	—	(1,744,000)
Net deferred tax asset	$2,036,000	$ 101,000

At December 31, 2005, the Company has AMT tax credit carryforwards of approximately $832,000, which do not have an expiration date.

The deferred tax asset represents the tax effect of temporary differences related to the Company's domestic operations and to the Company's foreign operations that will reverse after the tax holiday period has expired.

At December 31, 2005, the Company performed an analysis of the U.S. deferred tax asset valuation allowance. Based on the analysis, the Company has concluded that a valuation allowance offsetting the deferred tax assets not be recorded at December 31, 2005 based on the conclusion that it is more likely than not that there will be sufficient future taxable income to realize the deferred tax assets. The valuation allowance (decreased) increased by approximately ($1,744,000), ($355,000) and $1,436,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

In addition, at December 31, 2005, the Company performed an analysis of the deferred tax asset valuation allowance for its Indian subsidiary. At December 31, 2005 and 2004, the deferred tax asset valuation allowance for the Company's Indian subsidiary was $1,753,000 and $2,440,000, respectively. The Company had concluded that a valuation allowance offsetting the deferred tax assets continue to be recorded at December 31, 2005 based on the conclusion that it is more likely than not that these assets related to the Indian subsidiary will not be realized.

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10. Income Taxes (continued)

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

	Year ended December 31		
	2005	2004	2003
Expected tax benefit	$ 2,244,000	$ 1,891,000	$ 4,000
Change in valuation allowance	(1,744,000)	(355,000)	1,436,000
Impact of tax holiday	(1,854,000)	(1,743,000)	(638,000)
State taxes, net of Federal taxes	183,000	14,000	(137,000)
Non-deductible IPO costs	229,000	—	—
Non-deductible preferred stock dividend	139,000	209,000	99,000
Non-deductible non-cash compensation	175,000	—	—
Other	(19,000)	6,000	6,000
Tax (benefit) provision	$ (647,000)	$ 22,000	$ 770,000

11. Stock Based Compensation

Stock Option Plan

In fiscal 2003, the Company instituted the Exl Holdings 2003 Stock Option Plan (the "2003 Plan") under which it may award options to employees, officers, directors, advisory board and consultants to purchase up to 800,000 shares of its Series B common stock. The options vest over a four-year period. The vested options must be exercised within 10 years after the vesting date or they will expire. If an employee is terminated they must exercise any vested options within 90 days after termination or the vested options are forfeited.

Stock option activity under the 2003 Plan is shown below:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2002	—	—
Granted	404,600	$ 0.23
Exercised	—	—
Forfeited	(58,325)	0.24
Outstanding at December 31, 2003	346,275	0.23
Granted	257,100	16.52
Exercised	(64,831)	0.23
Forfeited	(73,120)	2 .42
Outstanding at December 31, 2004	465,424	8.88
Granted	277,750	23.75
Exercised	(54,110)	0.23
Forfeited	(133,513)	17.67
Outstanding at December 31, 2005	555,551	$ 14.09
Vested and exercisable at December 31, 2005	80,089	$ 10.76
Available for grant at December 31, 2005	125,508	

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

11. Stock Based Compensation (continued)

The weighted-average fair value of options issued under the 2003 Plan during 2005 and 2004 was $6.54 and $9.29 respectively, and the weighted-average remaining contractual life of options outstanding and exercisable at December 31, 2005 and 2004 was 8.45 and 8.89 years, respectively.

For options granted to employees in 2004 and 2003, the Company recorded $423,775 and $165,409 in deferred compensation, representing the difference between the exercise price of the options on the date of grant and the fair value of the Company's common stock. Deferred compensation is amortized over the vesting period of the related options. For the years ended December 31, 2005, 2004 and 2003, the Company amortized and recorded $65,957, $104,665 and $10,405, respectively, as compensation expense.

In December 2003, the Company granted an employee options to purchase 20,000 shares of Series B common stock at an exercise of $5.00 per share outside the 2003 Plan. For the year ended December 31, 2003, the Company recorded $12,600 as compensation expense.

During the 12-month period ended December 31, 2005, the Company granted stock options as follows:

Date of Grant	Number of Options Granted	Exercise Price	Deemed Fair Value Per Share	Intrinsic Value Per Option
February 15, 2005	25,000	$23.75	$ 23.75	$ —
March 15, 2005	22,250	$23.75	$ 23.75	—
April 27, 2005	20,500	$23.75	$ 15.20	—
May 31, 2005	5,000	$23.75	$ 15.20	—
June 1, 2005	140,000	$23.75	$ 15.20	—
June 24, 2005	15,000	$23.75	$ 15.20	—
September 29, 2005	32,000	$23.75	$ 16.00	—
October 31, 2005	3,000	$23.75	$ 16.00	—
November 8, 2005	15,000	$23.75	$ 16.00	—

The deemed fair value of the common stock for accounting purposes is supported by contemporaneous valuations performed by a third party valuation consultant. The outcome of these valuation processes was that the fair value of the Company's common stock had declined due to the following reasons:

- Key Company milestones relating to attainment of revenue targets had not been met;
- The decision by the Company to voluntarily exit certain businesses and therefore the overall revenue target and operating income target for the Company in 2005 declined to the original business plan;
- Comparable company and industry analysis; and
- Anticipated initial public offering price per share and the timing of the initial public offering.

Series B Common Stock

In 2003, certain employees purchased 444,538 shares of Series B common stock for an aggregate purchase price of $102,013. The difference of $4,890 between the fair value of these shares and the purchase price was recorded as compensation expense in 2003.

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

11. Stock Based Compensation (continued)

Preferred Stock

During 2002, in connection with employment agreements, certain officers purchased 2,993 shares of preferred stock for $3. The difference between the fair value of these shares and the purchase price, totaling $299,299, is being amortized to compensation expense over the three-year vesting period. For the years ended December 31, 2005, 2004 and 2003, the Company amortized and recorded compensation expense of $84,171, $101,420 and $101,420, respectively.

Advisory Board Options

In 2005, the Company also granted to a member of its advisory board options to purchase 5,000 shares of Series B common stock at an exercise price of $23.75 per share under the Plan. Using the Black-Scholes valuation model, the fair value of these options at December 31, 2005 was determined to be $20,750. In 2003, the Company also granted to members of its advisory board options to purchase 10,000 shares of Series B common stock at an exercise price of $0.24 per share under the Plan. Using the Black-Scholes valuation model, the fair value of these options at December 31, 2005 was determined to be approximately $172,000. These options vest over a period of four years and expire ten years from the vesting date. For the years ended December 31, 2005, 2004 and 2003, the Company recorded $67,390, $61,494 and $1,750, respectively, as compensation expense. The fair value and related compensation expense will be remeasured for the unvested portion of these options at the end of each reporting period until such options are fully vested.

Client Options

In connection with the execution of a five-year services agreement, the Company issued options to purchase 115,100 shares of Series A common stock at an exercise price of $12.50 per share in July 2004. The option is fully exercisable and expires ten years from the date of grant. The $15.56 per share fair value of the option on the date of issuance, using the BlackScholes valuation model was approximately $1,792,000. Such amount is being amortized as a reduction to revenue over the five-year term of the services agreement. Amortization for the years ended December 31, 2005 and 2004 was approximately $358,000 and $299,000, respectively.

The fair value was estimated considering the following assumptions:

Dividend yield	0%
Expected life	5 years
Fair value of stock	$23.75
Risk free interest rate	4%
Volatility	50%

12. Related Party Transactions

The Company entered into the following related party transactions:

The Company received services in India for employee training performed by a company controlled by one of its stockholders. This company is one of the many companies rendering such services to Exl India. The Company recorded expenses related to these services of $86,417, $223,458 and $192,944 for the years ended December 31, 2005, 2004 and 2003, respectively. At December 31, 2005, the Company had a balance receivable of $2,492 related to these services.

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

12. Related Party Transactions (continued)

The Company provides advisory services related primarily to compliance with the Sarbanes-Oxley Act of 2002 to Williams Scotsman, Inc., a provider of mobile and modular building solutions in North America. Williams Scotsman, Inc. is controlled by entities related to one of our significant stockholders. The Company received approximately $320,000 and $26,000 in 2005 and 2004, respectively, in advisory fees and expense reimbursements from Williams Scotsman, Inc.

The Company provides advisory services to Duane Reade Holdings, Inc., which is indirectly owned by one of its significant stockholders. The Company received approximately $213,840 in 2005 in advisory fees and expense reimbursements from Duane Reade Holdings, Inc.

The Company received services in India for catering of meals by a company controlled by a stockholder. The Company recorded expenses related to these services of $31,658 for the year ended December 31, 2003. The services of this company were terminated during 2003.

The Company entered into employment and non-competition agreements with management in November 2002. The initial term of these agreements was three years and the Company has the option to extend the term for two additional one year periods. The agreements have been extended through September 30, 2006 and include an annual base salary of $400,000, a bonus amount and an additional incentive bonus amount as well as certain other fringe benefits. Upon termination of employment under conditions, as defined, 25% of certain common stock, as defined, held by such senior management is subject to repurchase by the Company at cost for up to one year and at fair market value if after one year for a two-year period. Such common stock is not subject to repurchase after three years.

Senior long-term debt of $325,000 with a five-year life issued to certain officers is being amortized over a three-year period consistent with the preferred stock issued to such officers. For the years ended December 31, 2005, 2004 and 2003, the Company recorded compensation expense of $103,008, $108,660 and $108,660, respectively.

For the years ended December 31, 2005, 2004 and 2003, the Company paid a management fee of $100,000, $200,000 and $200,000, respectively, to certain investors.

13. Geographical Information

	Year ended December 31		
	2005	2004	2003
Revenues			
United States	$ 35,648,405	$ 28,832,232	$ 15,927,472
United Kingdom	38,298,387	31,634,414	11,843,887
Germany	7,000	—	—
	$ 73,953,792	$ 60,466,646	$ 27,771,359

	December 31	
	2005	2004
Fixed assets		
United States	$ 779,961	$ 975,813
India	15,425,040	13,912,289
United Kingdom	1,664	—
	$ 16,206,665	$ 14,888,102

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)

14. Commitments and Contingencies

Fixed Asset Commitments

At December 31, 2005, the Company had committed to spend approximately $1,383,000 under agreements to purchase fixed assets. This amount is net of advances paid in respect of these purchases.

Other Commitments

Exl India and NCOP have been established as “Export-Oriented Undertaking” enterprises under the “Export Import Policy” (“policy”) formulated by the Government of India. Pursuant to this policy, the Company has benefited from certain incentives on import of capital goods. Under this policy, Exl India and NCOP must achieve certain export ratios and realize revenues attributable to exports of approximately $104.9 million and $43.4 million, respectively, over a period of five years.

In the event Exl India is unable to achieve its commitments over the specified period, Exl India may be required to refund such incentives, along with penalties and fines. Management, however, believes that Exl India will achieve these export levels within the required timeframe.

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Exl Service Holdings, Inc.

Consolidated Balance Sheets
(Unaudited)

	June 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 24,340,259	$ 24,240,632
Restricted cash	561,920	474,504
Accounts receivable, net of allowance for doubtful accounts	21,602,475	14,762,331
Employee receivables	383,024	381,604
Prepaid expenses	708,515	1,037,839
Deferred income taxes	2,266,437	1,165,000
Other current assets	1,093,192	959,088
Total current assets	50,955,822	43,020,998
Fixed assets, net	14,202,947	16,206,665
Restricted cash	140,175	210,521
Deferred income taxes	557,656	871,327
Other assets	2,111,705	2,266,800
Total assets	$ 67,968,305	$ 62,576,311
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 1,348,444	$ 1,391,775
Deferred revenue	6,644,233	7,608,889
Accrued employee cost	4,478,556	3,408,714
Other accrued expenses and current liabilities	8,472,429	6,319,374
Income taxes payable	176,320	777,643
Current portion of capital lease obligation	195,296	215,150
Total current liabilities	21,315,278	19,721,545
Senior long-term debt	5,725,947	5,583,499
Capital lease obligations, less current portion	183,549	256,300
Total liabilities	27,224,774	25,561,344
Preferred stock, $.001 par value; 55,000 shares authorized:		
45,833.36 designated as Series A redeemable shares; 45,304 issued and outstanding, (liquidation preference $6,495,963 at June 30, 2006 and $6,183,584 at December 31, 2005)	6,413,463	6,071,084
Stockholders' equity:		
Common stock, $0.001 par value: 13,000,000 shares authorized:		
11,122,702 designated as Series A: 10,081,778 shares issued and outstanding as of June 30, 2006 and as of December 31, 2005	10,082	10,082
1,659,230 designated as Series B; 617,240 shares issued at June 30, 2006; 583,479 shares issued at December 31, 2005	617	583
Additional paid-in capital	17,313,746	17,102,069
Deferred stock based compensation	—	(200,188)
Retained earnings	18,591,487	15,235,424
Accumulated other comprehensive loss	(1,550,348)	(1,189,628)
	34,365,584	30,958,342
Less: 74,569 shares as at June 30, 2006 and 61,414 shares as at December 31, 2005, of Series B common stock held in treasury, at cost	(35,516)	(14,459)
Total stockholders' equity	34,330,068	30,943,883
Total liabilities and stockholders' equity	$ 67,968,305	$ 62,576,311

See accompanying notes

Exl Service Holdings, Inc.

Consolidated Statements of Income
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Revenues	$ 24,650,263	$ 17,727,247	$ 46,107,597	$ 35,331,825
Revenues (from related party)	579,995	81,618	680,645	273,868
Total revenues	25,230,258	17,808,865	46,788,242	35,605,693
Cost of revenues (exclusive of depreciation and amortization)	15,941,695	11,830,122	29,887,639	23,664,068
Gross profit	9,288,563	5,978,743	16,900,603	11,941,625
Operating expenses:				
General and administrative expenses	3,633,351	2,868,746	7,308,380	6,041,696
Selling and marketing expenses	685,909	459,848	1,448,100	793,439
Depreciation and amortization	1,875,243	1,539,309	3,639,974	2,979,651
Total operating expenses	6,194,503	4,867,903	12,396,454	9,814,786
Income from operations	3,094,060	1,110,840	4,504,149	2,126,839
Other income (expense):				
Foreign exchange gain/(loss)	(1,100,715)	716,301	(699,894)	1,080,690
Interest and other income	363,759	138,497	601,382	243,161
Interest expense	(101,748)	(95,546)	(203,767)	(189,888)
Interest expense—redeemable preferred stock	—	(159,167)	—	(313,277)
Income before income taxes	2,255,356	1,710,925	4,201,870	2,947,525
Income tax provision/(benefit)	670,196	153,565	503,428	266,751
Net income	1,585,160	1,557,360	3,698,442	2,680,774
Dividends and accretion on preferred stock	(173,651)	—	(342,379)	—
Net income to common stockholders	$ 1,411,509	$ 1,557,360	$ 3,356,063	$ 2,680,774
Basic earnings per share to common stockholders	$ 0.13	$ 0.15	$ 0.32	$ 0.25
Diluted earnings per share to common stockholders	$ 0.13	$ 0.15	$ 0.31	$ 0.25
Weighted-average number of shares used in computing earnings per share:				
Basic(1)	10,612,084	10,587,787	10,608,813	10,573,977
Diluted(1)	10,703,917	10,714,198	10,714,911	10,729,467

(1) The weighted average number of shares used in computing earnings per share for the three months and six months ended June 30, 2006 and 2005 includes Series A and Series B common stock.

See accompanying notes

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Exl Service Holdings, Inc.

Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended June 30,	
	2006	**2005**
Cash flows from operating activities		
Net income	$ 3,698,442	$ 2,680,774
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,639,974	2,979,651
Interest expense—redeemable preferred stock	—	283,277
Amortization of deferred financing costs	30,000	60,000
Amortization of deferred stock compensation and other non-cash compensation	400,751	124,251
Interest on senior long term debt	142,448	108,350
Non employee stock options	167,970	223,708
Foreign exchange gain (unrealized)	1,416,135	(633,512)
Deferred income taxes	(797,900)	—
Change in operating assets and liabilities (net of effect of acquisitions):		
Restricted cash	(17,070)	(1,339,048)
Accounts receivable	(6,907,307)	751,684
Prepaid expenses and other current assets	193,801	580,510
Accounts payable	272,725	(5,114)
Deferred revenue	(1,073,430)	(691,924)
Accrued expenses and other liabilities	2,118,482	111,917
Income taxes payable	(601,324)	(90,412)
Other assets	15,022	(766,858)
Net cash provided by operating activities	2,698,719	4,377,254
Cash flows from investing activities		
Purchase of fixed assets (net of sale proceeds)	(2,262,582)	(1,811,657)
Net cash used in investing activities	(2,262,582)	(1,811,657)
Cash flows from financing activities		
Principal payments on capital lease obligations	(155,325)	(94,587)
Net proceeds from common stock transactions	(21,057)	—
Proceeds from exercise of stock options	22,384	9,842
Net cash (used in) provided by financing activities	(153,998)	(84,745)
Effect of exchange rate changes on cash and cash equivalents	(182,512)	(90,230)
Net increase in cash and cash equivalents	99,627	2,390,622
Cash and cash equivalents at the beginning of the year	24,240,632	18,760,120
Cash and cash equivalents at the end of the period	$ 24,340,259	$ 21,150,742
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 24,667	$ 37,389
Cash paid for taxes	1,938,872	192,604
Supplemental disclosure of non-cash information		
Assets acquired under capital lease	62,720	125,959

See accompanying notes

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements
June 30, 2006
(Unaudited)

1. Organization and Basis of Presentation

Organization

ExlService Holdings, Inc. (“Exl Holdings”) is organized as a corporation under the laws of the State of Delaware, Exl Holdings, together with its subsidiaries Exl Service.com, Inc. (“Exl Inc”), ExlService.com (India) Private Limited (“Exl India”), Noida Customer Operations Private Limited (“NCOP”), Exl Support Services Pvt. Ltd. (“ESSPL”) and ExlService (U.K.) Limited (“Exl UK”) (collectively, the “Company”), are principally engaged in the business of developing and deploying business process outsourcing solutions, including transaction-processing services and Internet and voice-based customer care services for its clients primarily in India. The Company’s clients are located principally in the United States and the United Kingdom.

Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and the requirements of Form 10-Q and Rule 10.01 of Regulation S-X. Accordingly, they do not include certain information and note disclosures required by generally accepted accounting principles for annual financial reporting and should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Consolidated Financial Statements of Exl Service Holdings, Inc for the fiscal year ended December 31, 2005 and Management’s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

The unaudited interim financial statements reflect all adjustments (of a normal and recurring nature) which management considers necessary for a fair presentation of the results of operations for these periods. The results of operations for the interim periods are not necessarily indicative of the results for the full year.

The condensed consolidated balance sheet at December 31, 2005 was derived from the audited consolidated balance sheet of ExlService Holdings, Inc. at that date.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Exl Holdings and its subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Foreign Currency

The functional currency of Exl Holdings and Exl Inc is the United States Dollar (“U.S. Dollar”), being the currency of the primary economic environment in which they operate. The functional currency of Exl India,

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)
June 30, 2006
(Unaudited)

NCOP and ESSPL is Indian Rupees and for Exl U.K., it is the Pound Sterling, being the currency of primary economic environment in which they operate. Monetary assets and liabilities in foreign currencies are re-measured into functional currency at the rates of exchange prevailing at the balance sheet dates. Transactions in foreign currencies are re-measured into functional currency at the rates of exchange prevailing on the date of the transaction. All transaction foreign exchange gains and losses are recorded in the accompanying consolidated statement of Income.

In respect of the subsidiaries for which the functional currency is other than U.S. Dollar, the assets and liabilities of such subsidiaries are translated into U.S. Dollars, the reporting currency, at the rate of exchange prevailing on the balance sheet date. Revenues and expenses are translated into U.S. Dollars at average exchange rates prevailing during the period. Resulting translation adjustments are included in accumulated other comprehensive income (loss).

Revenue Recognition

Revenues from business process outsourcing services include revenue from processing of transactions and services provided through voice and Internet communication channels. Revenue from the advisory services includes revenue from various consulting services such as Sarbanes Oxley compliance, internal audit and financial reporting.

The Company recognizes revenue as services are rendered, provided that persuasive evidence of an arrangement exists, there are no remaining obligations with respect to the services rendered and collection is considered probable. The Company invoices clients in accordance with the agreed upon rates and billing arrangements, which consist of time and material, cost plus and unit priced arrangements. The Company recognizes revenue from the last billing date to the balance sheet date as unbilled revenues and recognizes billings in excess of revenues earned or advances received from clients as deferred revenue.

In accordance with EITF 01-14, “Income Statement Characterization of Reimbursements Received for ‘Out-of-Pocket’ Expenses Incurred,” the Company has accounted for reimbursements received for out-of-pocket expenses incurred as revenues in the consolidated statements of Income. The Company typically incurs telecommunications and travel related costs that are billed to and reimbursed by clients.

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

Three Months Ended June 30, 2006	$ 917,789
Three Months Ended June 30, 2005	$ 845,569
Six Months Ended June 30, 2006	$ 1,952,004
Six Months Ended June 30, 2005	$ 1,572,446

During the three months ended June 30, 2006, two customers accounted for 41% and 14%, respectively, of the Company’s total revenues. During the three months ended June 30, 2005, two customers accounted for 54% and 10%, respectively, of the Company’s total revenues.

During the six months ended June 30, 2006, two customers accounted for 44% and 12%, respectively, of the Company’s total revenues. During the six months ended June 30, 2005, two customers accounted for 52% and 11%, respectively, of the Company’s total revenues.

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As on June 30, 2006, two customers accounted for 36% and 19%, respectively, of the Company's total accounts receivable. As on December 31, 2005, two customers accounted for 49% and 13%, respectively, of the Company's total accounts receivable.

Segment Information

The Company is generally organized around its business process outsourcing service and its advisory service lines. These service lines do not have operating managers who report to the chief operating decision maker. The chief operating decision maker generally reviews financial information at consolidated results of operations level but does not review any information except for revenues and cost of revenues of the individual service lines. Therefore, the Company does not allocate or evaluate depreciation, amortization, interest expense or income, capital expenditures, and income taxes into its various service lines. Consequently, it is not practical to show assets, capital expenditures, depreciation or amortization by operating segment.

Revenues and the cost of revenues from business processing outsourcing services and advisory services were as follows:

	Three months ended June 30, 2006			Three months ended June 30, 2005			Six months ended June 30, 2006			Six months ended June 30, 2005		
	BPO	Advisory Services	Total	BPO	Advisory Services	Total	BPO	Advisory Services	Total	BPO	Advisory Services	Total
Revenue	$23,045,384	$2,184,874	$25,230,258	$16,154,004	$1,654,861	$17,808,865	$43,161,174	$3,627,068	$46,788,242	$32,196,628	$3,409,065	$35,605,693
Cost of revenue (exclusive of depreciation and amortization)	14,680,163	1,261,532	15,941,695	10,940,951	889,171	11,830,122	27,540,785	2,346,854	29,887,639	21,963,086	1,700,982	23,664,068
Gross Profit	$ 8,365,221	$ 923,342	$ 9,288,563	$ 5,213,053	$ 765,690	$ 5,978,743	$15,620,389	$1,280,214	$16,900,603	$10,233,542	$1,708,083	$11,941,625
Depreciation and amortization	$ —	$ —	$ 1,875,243	$ —	$ —	$ 1,539,309	$ —	$ —	$ 3,639,974	$ —	$ —	$ 2,979,651
Interest and other income	—	—	363,759	—	—	138,497	—	—	601,382	—	—	243,161
Interest expense	—	—	(101,748)	—	—	(95,546)	—	—	(203,767)	—	—	(189,888)
Interest expense—redeemable preferred stock	—	—	—	—	—	(159,167)	—	—	—	—	—	(313,277)
Income tax (benefit) provision	$ —	$ —	$ 670,196	$ —	$ —	$ 153,565	$ —	$ —	$ 503,428	$ —	$ —	$ 266,751

Accumulated Other Comprehensive Income

SFAS No. 130, "*Reporting Comprehensive Income*," establishes rules for the reporting of comprehensive income and its components. Comprehensive income is defined as all changes in equity from non-owner sources. For the Company, comprehensive income (loss) consists of net earnings and changes in the cumulative foreign currency translation adjustments and minimum pension liability adjustments. In addition, the Company enters into foreign currency exchange contracts, which are designated as cash flow hedges in accordance with SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*." Changes in the fair values of contracts that are deemed effective are recorded as a component of accumulated other comprehensive income (loss) until the settlement of that contract. The Company reports comprehensive income (loss) in the consolidated statements of stockholders' equity.

Financial Instruments and Concentration of Credit Risk

Financial Instruments: For certain financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and other current liabilities, recorded amounts approximate fair value due to their relatively short maturity periods.

Concentration of Credit Risk: Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, accounts receivable and time deposits. By their nature, all such financial instruments involve risks including the credit risks of non-performance by counterparties.

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Derivatives and Hedge Accounting: In the Company's normal course of business, the Company actively looks to mitigate the exposure of foreign currency market risk by entering into various hedging instruments, authorized under Company polices with counterparties that are highly-rated financial institutions. The Company's primary exchange rate exposure is with the British pound and Indian rupee. The Company uses derivative instruments for the purpose of mitigating the underlying exposure from foreign currency fluctuation risks associated with forecasted transactions denominated in certain foreign currencies and to minimize earnings and cash flow volatility associated with the changes in foreign currency exchange rates, and not for speculative trading purposes. The Company also hedges anticipated transactions that are subject to foreign exchange exposure with foreign exchange contracts that are designated effective and qualify as cash flow hedges, under SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*". Changes in the fair value of these cash flow hedges which are deemed effective, are recorded in accumulated other comprehensive income (loss) until the contract is settled and at that time are recognized in the consolidated statements of Income. The Company evaluates hedge effectiveness at the time a contract is entered into as well as on an ongoing basis. If during this time, a contract is deemed ineffective, the change in the fair value is recorded in the consolidated statements of Income.

The Company entered into forward exchange contracts during the three months ended June 30, 2006. At June 30, 2006, forward exchange contracts of $41,750,000 and GBP 14,500,000 were outstanding.

The Company has evaluated the effectiveness of all forward exchange contracts. For the three months ended June 30, 2006 and 2005, net gains/(losses) from ineffective cash flow hedges included in the statement of income totaled approximately $(975,000) and $612,000, respectively. For the six months ended June 30, 2006 and 2005, net gains/(losses) from ineffective cash flow hedges included in the consolidated statements of income totaled $(1,007,000) and $732,000, respectively. Such gain/(loss) is included in foreign exchange gain/(loss) in the income statement. For hedge relationships discontinued because the forecasted transaction is not expected to occur by the end of the originally specified period, any related derivative amounts recorded in equity are reclassified to earnings.

Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, *"Accounting for certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140,"* or SFAS No. 155. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. We do not expect the adoption of SFAS 155 to have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2006, the FASB issued SFAS No.156, *"Accounting for Servicing of Financial Assets-an Amendment to FASB Statement No.140,"* or SFAS No.156, which clarifies the accounting for separately recognized servicing

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assets and liabilities. SFAS No.156 is effective in fiscal years beginning after September 15, 2006. We do not believe the adoption of SFAS No.156 will have a material impact on our consolidated financial position, results of operation or cash flows.

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), "*Accounting for uncertainty in Income Taxes*". FIN 48 clarifies the accounting for Income Taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition and clearly scopes income taxes out of SFAS 5, "*Accounting for Contingencies*". FIN 48 is effective for fiscal years beginning after December 15, 2006. We have not yet evaluated the impact of adopting FIN 48 on our consolidated financial position, results of operation or cash flows.

3. Restriction on Cash Balances and Time Deposits

Current restricted time deposits represent amounts on deposit with banks against letters of credit and bank guarantees issued by the Company for equipment imports amounting to $561,920 that will mature on various dates in 2006.

Non-current restricted cash represents guarantees against custom and excise bonding issued through banks amounting to $140,175 that will mature between 2007 and 2008.

4. Comprehensive Income/(Loss):

The following table sets forth the components of comprehensive income for the three and six months ended June 30, 2006 and June 30, 2005.

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Net income	$ 1,411,509	$ 1,557,360	$ 3,356,063	$ 2,680,774
Other comprehensive income (loss):				
Unrealized gain/(loss) on effective cash flow hedges	(585,470)	78,891	($163,818)	101,708
Minimum pension liability	—	—	—	14,038
Foreign currency translation adjustment	(239,695)	(11,098)	(196,902)	(5,519)
Total other comprehensive income (loss)	(825,165)	67,793	(360,720)	110,227
Total comprehensive income (loss)	$ 586,344	$ 1,625,153	$ 2,995,343	$ 2,791,001

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Notes to Consolidated Financial Statements (continued)
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5. Fixed Assets:

Fixed assets consist of the following:

	Estimated Useful Life	June 30, 2006	December 31, 2005
Network equipment, cabling and computers	3	$ 15,897,355	$ 13,310,963
Leasehold improvements	3-5	7,518,991	4,966,353
Office furniture and equipment	3-5	3,063,876	2,313,948
Motor vehicles	3	814,763	778,273
Construction in progress		229,305	4,889,348
		27,524,290	26,258,885
Less: Accumulated depreciation and amortization		(13,321,343)	(10,052,220)
		$ 14,202,947	$ 16,206,665

Construction in progress represents advances paid towards acquisition of fixed assets and the cost of fixed assets not yet placed in service. The cost and accumulated amortization of assets under capital leases at June 30, 2006 were $717,171 and $361,368, respectively, and at December 31, 2005 were $778,273 and $361,829, respectively.

During 2005, the Company conducted an evaluation of the useful life of its leasehold improvements. At the time the Company entered into those leases, it was not able to estimate how long these premises would be occupied and based on that, made the assumption that a life of 36 months was appropriate. As a result of this review and the success of the Company's business model, the Company believes that it will remain in these facilities through at least a further 60 months. Based on that evaluation, which included a review of the respective lease contracts and the remaining useful life of those assets, the Company determined that the useful life of the assets that had been capitalized under the leasehold improvements asset category was 60 months versus 36 months. As a result, at April 1, 2005 the Company changed the useful life to 60 months. This change impacted (1) all new leasehold assets purchased from April 1, 2005 forward and (2) the amortization expense to be recognized for periods starting April 1, 2005 of leasehold assets put into place prior to April 1, 2005 that were not fully amortized.

The change in estimated useful life of leasehold improvements resulted in amortization expense being approximately $176,000 less in the three months ended June 30, 2006 and $352,000 for the six months ended June 30, 2006 and approximately $176,000 less in the three and six months ended June 30, 2005, than what it would have been had the estimated useful life not changed.

6. Senior Long-Term Debt

On December 13, 2002, certain new investors and members of management acquired senior promissory notes issued by the Company totaling $4,674,000. The senior promissory notes mature on December 13, 2007. The Company issued additional senior promissory notes to employees of the Company during August 2003 in the amount of $272,403. Interest on the principal amount is payable on maturity and accrues at a rate equal to the greater of (i) 2.02% semiannually or (ii) LIBOR. The Company redeemed promissory notes including accrued interest of $13,239 in 2004.

The effective interest rate at June 30, 2006 was 5.17% and at December 31, 2005 was 4.08%. Accrued interest at June 30, 2006 and December 31, 2005 included in senior long-term debt on the consolidated balance sheets is $792,783 and $650,335, respectively.

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Deferred financing costs, totaling $300,000, are included in other assets and are being amortized to interest expense through the maturity date of the senior long-term debt. For each of the three and six months ended June 30, 2006 and June 30, 2005, amortization of deferred financing costs amounted to $15,000 and $30,000, respectively.

7. Redeemable Preferred Stock

Holders of redeemable preferred stock are not permitted or entitled to vote on any matter required or permitted to be voted on by the stockholders of the Company. Holders of redeemable preferred stock have superior liquidation rights compared to the common stockholders. In the event of liquidation, dissolution or winding up of the operations of the Company, the redeemable preferred stockholders are entitled to receive a liquidation preference in the distribution of assets. The liquidation preference is equal to $100 per share plus any accrued and unpaid dividends.

Holders of redeemable preferred stock are entitled to receive annual dividends, as and when declared by the Company out of funds legally available equal to 10% of the liquidation preference per share. Such dividends are payable, at the election of the Company, in cash or in the form of an additional liquidation preference and accrue annually, but are to be paid only upon redemption, liquidation or as otherwise declared by the Company. Such dividends are cumulative and accrue on a day-to-day basis, whether or not earned. Cumulative dividends in arrears at June 30, 2006 and December 31, 2005 amounted to $1,965,562 and $1,653,183, respectively.

The Company may, at its option at any time, redeem all of the redeemable preferred stock by giving adequate notice to the holders of redeemable preferred stock. Upon the occurrence of a mandatory redemption event, holders of the redeemable preferred stock can cause redemption of all the redeemable preferred stock outstanding. On August 16, 2005, the Company amended certain provisions of the preferred stock agreement relating to mandatory redemption events to (i) remove a provision stating that upon the resignation by, or other termination of employment of, Vikram Talwar or Rohit Kapoor, the holders of the redeemable preferred stock may require the Company to redeem the preferred stock and (ii) remove the automatic redemption provisions of the preferred stock agreement. Thereafter, mandatory redemption events include (i) breach in any material respect of warranties and representations made by Conseco, Inc. (the former parent) under the stock purchase agreement dated November 14, 2002 and (ii) any material adverse change in the condition, financial or otherwise, business, properties, assets, results of operations or prospects of the Company or any of its subsidiaries. In all instances, the redemption events are conditional and the redemption amount will be the liquidation preference.

On May 15, 2003, the FASB issued SFAS No. 150, *"Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equities*". This statement requires, among other things, that any of various financial instruments that are issued in the form of shares that are mandatorily redeemable on a fixed or determinable date be classified as liabilities, any dividends paid on the underlying shares be treated as interest expense, and issuance costs should be deferred and amortized using the interest method. SFAS No. 150 is effective for all financial instruments created or modified after May 31, 2003, and is effective July 1, 2003 for the Company. As required by SFAS No. 150, accrued and unpaid dividends in fiscal years prior to adoption of SFAS No. 150 have not been reclassified to interest expense. Effective July 1, 2003, dividends on the redeemable preferred stock have been classified as interest expense. For the three months ended June 30, 2005, the Company recorded $144,167 as interest expense. For the six months ended June 20, 2005, the Company recorded $283,277 as interest expense. As a result of amended provisions, effective August 16, 2005, for the three months ended June 30, 2006 accrued dividends of $158,651 and for six months ended June 30, 2006 accrued dividends of $312,379 are no longer included in interest expense but are included in dividends and accretion on preferred stock in the statement of Income.

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The preferred stock is recorded net of issuance costs of $300,000, which are accreted over a period of five years. For the three and six months ended June 30, 2006, amortization of issuance costs of $15,000 and $30,000, respectively, was included as dividends and accretion on preferred stock in the statement of Income. For the three and six months ended June 30, 2005 amortization of issuance costs of $15,000 and $30,000, respectively, was included in interest expense in the Statement of Income.

The redeemable preferred stock is carried at the amount of cash that would be paid under the respective agreement if the shares were repurchased or redeemed at the reporting date less unamortized issuance costs of $82,500 and $112,500 at June 30, 2006 and at December 31, 2005, respectively.

8. Capital Structure

Common Stock

Holders of Series A common stock have one vote for each share held with respect to all matters voted on by the stockholders of the Company. Holders of Series B common stock do not have any voting rights.

Prior to the occurrence of a conversion event, as defined in the Company's Certificate of Incorporation, the Series B common stock will be converted into Series A common stock initially at a ratio of 1:1. Among other things, a conversion event includes the consummation of a sale of common stock in a public offering, as defined.

9. Employee Benefit Plans

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 the Company. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation. Current service costs for the Gratuity Plan are accrued in the period to which they relate.

Net gratuity cost includes the following components:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Service cost	$ 63,039	$ 52,014	$ 128,151	$ 104,028
Interest cost	7,503	5,042	15,252	10,083
Actuarial (gain) loss	—	13,521	—	27,042
Net gratuity cost	$ 70,542	$ 70,577	$ 143,403	$ 141,153

The Company contributes to the Government Provident Fund (a defined contribution plan) on behalf of its employees in India. The assets held by the Government Provident Fund are not reported on the Company's consolidated balance sheets. The contributions made to the Government Provident Fund for each period are as follows:

Three months ended June 30, 2006	$ 681,183
Three months ended June 30, 2005	$ 527,057
Six months ended June 30, 2006	$ 1,283,862
Six months ended June 30, 2005	$ 961,329

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)
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10. Leases

Exl India leases motor vehicles from finance companies. Such leases are recorded as capital leases with interest rates ranging from 9.0% to 12.5%. Future minimum lease payments under these capital leases at June 30, 2006 are as follows:

Year ended June 30	
2007	$ 231,764
2008	113,875
2009	81,861
Total minimum lease payments	427,500
Less: amount representing interest	48,655
Present value of minimum lease payments	378,845
Less current portion	195,296
Long term capital lease obligation	$ 183,549

The Company conducts its operations using facilities, office furniture and certain equipment leased under non-cancelable operating lease agreements that expire at various dates through the year 2009. Future minimum lease payments under these non-cancelable agreements expiring after more than 12 months are as follows:

Year end June 30	
2007	$ 690,180
2008	384,400
2009	288,300
Total minimum lease payments	$ 1,362,880

Rent expense under operating leases was $674,100 and $589,455 for the three months ended June 30, 2006 and 2005, respectively. Rent expense under operating leases was $1,350,937 and $1,159,721 for the six months ended June 30, 2006 and 2005, respectively.

11. Income Taxes

The Company recorded tax expense of $799,498 and $1,245,502 for the three and six month period ended June 30, 2006, respectively. However this was partially offset by a deferred tax benefit primarily generated from recognizing deferred tax assets on deferred compensation and deferred revenue in the United States and depreciation in foreign tax jurisdictions. This increase in deferred tax assets was partially offset by utilization of AMT credit carryforwards. This resulted in an overall tax expense of $503,428 being recorded for the six months ended June 30, 2006 and $670,196 for three months ended June 30, 2006.

At June 30, 2006, the Company performed an analysis of the deferred tax asset valuation allowance for its Indian subsidiary. The Company had concluded that a valuation allowance offsetting the deferred tax assets continue to be recorded at June 30, 2006 based on the conclusion that it is more likely than not that these assets related to the Indian subsidiary will not be realized. The valuation allowance at June 30, 2006 is approximately $1,990,000.

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12. Stock Based Compensation

In fiscal 2006 the Company instituted the Exl Holdings 2006 Stock Option Plan (the "2006 Plan"). The 2006 Plan covers all the employees of the Company and its subsidiaries. The Compensation Committee of the Board (the "Committee") administers the 2006 Plan and grants stock options to eligible employees of the Company and its subsidiaries.

The Committee determines which employees are eligible to receive the options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for the options issued on the date of the grant and is non-transferable during the life of the option. The options generally vest incrementally over a period of 4 years from the date of grant with 10% vesting in year 1, 20% vesting in year 2, 30% vesting in year 3 and 40% vesting in year 4. Pursuant to the 2006 Plan, the Company has reserved 574,692 shares of Series B common stock for the granting of options. If an employee is terminated they must exercise any vested options within 90 days after termination or the vested options are forfeited.

In fiscal 2003, the Company instituted the Exl Holdings 2003 Stock Option Plan (the "2003 Plan"). The 2003 Plan covers all the employees of the Company and its subsidiaries. The Compensation Committee of the Board (the "Committee") administers the 2003 Plan and grants stock options to eligible employees of the Company and its subsidiaries.

The Committee determines which employees are eligible to receive the options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for the options issued on the date of the grant and is non-transferable during the life of the option. The options generally vest incrementally over a period of 4 years from the date of grant with 25% of the options vesting each year. Pursuant to the 2003 Plan, the Company has reserved 800,000 shares of Series B common stock for the granting of options. If an employee is terminated they must exercise any vested options within 90 days after termination or the vested options are forfeited.

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

We recorded approximately $201,207 and $400,751 of total share-based compensation expense for the three and six month period ended June 30, 2006, respectively as required under SFAS No. 123(R).

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Prior to January 1, 2006, the Company accounted for share-based payments using the Accounting Principles Board ("APB") Opinion No. 25 intrinsic value method and, as such, generally recognized compensation cost for employee stock options where the exercise price was less that the fair value on the date of grant.

	Three months ended June 30, 2005	Six months ended June 30, 2005
Net income (loss) to common stockholders	$ 1,557,360	$ 2,680,774
Add: stock based employee compensation expense included in reported net income	(14,610)	20,144
Less: stock based employee compensation expense determined under the fair value method	(128,785)	(291,388)
Pro forma net income (loss) to common stockholders	$ 1,413,965	$ 2,409,530
Earnings per common share:		
Basic, as reported	$ 0.15	$ 0.25
Diluted, as reported	$ 0.15	$ 0.25
Basic, pro forma	$ 0.13	$ 0.23
Diluted, pro forma	$ 0.13	$ 0.22

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions. In addition, a forfeiture rate of 25% has been used based on a review of historical option activity.

The assumptions used to value the option grants for three and six month ended June 30, 2006 and June 30, 2005 are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Dividend yield	0%	0%	0%	0%
Expected life	60 months	60 months	60 months	60 months
Risk free interest rate	4.25%	4%	4.25%	4%
Volatility	50%	50%	50%	50%

Stock option activity under the Plan is shown below:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2005	555,551	$ 14.09
Granted	89,775	$ 23.75
Exercised	(33,761)	$ 0.66
Forfeited	(82,312)	$ 17.42
Outstanding at June 30, 2006	529,253	$ 16.52
Vested and exercisable at June 30, 2006	154,251	$ 12.38
Available for grant at June 30, 2006	507,737	

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The Company issued 5,000 shares of restricted stock during the three months ended June 30, 2006. The weighted-average fair value of options issued under the 2003 Plan during the six months ended June 2006 and 2005 was $8.93 and $6.67, respectively, and during the three months ended June 2006 and 2005 was $8.93 and $5.41, respectively. The weighted-average remaining contractual life of options outstanding and exercisable at June 30, 2006 and June 30, 2005 was 8.15 years and 8.88 years, respectively.

Earnings Per Share

Basic earnings per share is computed by dividing income (loss) to common stockholders by the weighted average number of common shares outstanding during each period. In determining the income to common stockholders, net income has been reduced by dividends and accretion on preferred stock. Diluted earnings per share are computed using the weighted average number of common shares plus the potentially dilutive effect of common stock equivalents plus the future stock compensation expense on the options issued to date. Stock options that are anti-dilutive are excluded from the computation of weighted average shares outstanding. For the three months ended June 30, 2006 and 2005, the weighted average number of shares used in calculating diluted earnings per share includes stock options of $91,833 and $126,410, respectively. For the six months ended June 30, 2006 and 2005, the weighted average number of shares used in calculating diluted earnings per share includes stock options of $106,097 and $155,489, respectively. The calculation of earnings per share for the three months ended June 30, 2006 and 2005 exclude stock options of 368,412 and 355,375, respectively, and for six months ended June 30, 2006 and 2005 exclude stock options of 368,412 and 355,375, respectively, because the exercise price of the option is more than the average price of stock and hence to include them in the calculation would be anti-dilutive. The calculation of dilutive earnings per share includes future stock compensation of $2,267,886 for the three and six months ended June 30, 2006.

Preferred Stock

During 2002, in connection with employment agreements, certain officers purchased 2,993 shares of preferred stock for $3. The difference between the fair value of these shares and the purchase price, totaling $299,299, is being amortized to compensation expense over the three-year vesting period. For the six months ended June 30, 2005, the Company amortized and recorded compensation expense of $24,918.

Advisory Board Options

In 2005, the Company also granted to a member of its advisory board options to purchase 5,000 shares of Series B common stock at an exercise price of $23.75 per share under the 2003 Plan. Using the Black-Scholes valuation model, the fair value of these options at June 30, 2006 was determined to be $34,000. In 2003, the Company also granted to members of its advisory board options to purchase 10,000 shares of Series B common stock at an exercise price of $0.24 per share under the 2003 Plan. Using the Black-Scholes valuation model, the fair value of these options at June 30, 2006 was determined to be approximately $172,000. These options vest over a period of four years and expire ten years from the vesting date. For the three months ended June 30, 2006, the Company recorded an expense reversal of $25,991 and for three months ended June 30, 2005 an expense of $14,753 towards compensation expense. For the six months ended June 30, 2006, the Company recorded an expense reversal of $11,238 of compensation expense. For the six months ended June 30, 2005, the Company recorded $29,506 as compensation expense. The fair value and related compensation expense will be remeasured for the unvested portion of these options at the end of each reporting period until such options are fully vested. The Company had remeasured the fair value of the unvested portion at the end of June 30, 2006 and had accordingly passed a credit to the compensation expense.

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(Unaudited)

Client Options

In connection with the execution of a five-year services agreement, the Company issued options to purchase 115,100 shares of Series A common stock at an exercise price of $12.50 per share in July 2004. The option is fully exercisable and expires ten years from the date of grant. The $15.56 per share fair value of the option on the date of issuance, using the Black Scholes valuation model was approximately $1,792,000. Such amount is being amortized as a reduction to revenue over the five-year term of the services agreement. Amortization for the three months ended June 30, 2006 and 2005 was approximately $89,604. Amortization for the six months ended June 30, 2006 and 2005 was approximately $179,208.

The fair value was estimated considering the following assumptions:

Dividend Yield	0%
Expected Life	5 years
Fair Value of Stock	$ 23.75
Risk Free Interest Rate	4%
Volatility	50%

13. Related Party Transactions

The Company entered into the following related party transactions:

The Company received services in India for employee training performed by a company controlled by one of its stockholders. This company is one of the many companies rendering such services to Exl India. The Company recorded expenses related to these services of $7,477 and $24,562 for the three months ended June 30, 2006 and June 30, 2005, respectively. For the six months ended June 30, 2006 and June 30, 2005, the Company recorded expenses of $25,925 and $38,907, respectively, for these services. At June 30, 2006 the Company had a balance payable of $15,811 related to these services.

The Company provides advisory services related primarily to compliance with the Sarbanes-Oxley Act of 2002 to Williams Scotsman, Inc., a provider of mobile and modular building solutions in North America. Williams Scotsman, Inc. is controlled by entities related to one of our significant stockholders. The Company received approximately $219,760 and $73,738 in the three months ending June 30, 2006 and 2005, respectively, and $245,410 and $265,988 in the first six months of 2006 and 2005, respectively, in advisory fees revenue and expense reimbursements from Williams Scotsman, Inc.

The Company provides BPO services to MedSynergies, Inc., a provider of outsourced billing, claims administration and payment processing services to healthcare providers. MedSynergies, Inc. is controlled by entities related to FTVentures, one of our significant stockholders. The Company recognized revenue of approximately $156,335 in the three months ending June 30, 2006 and the first six months of 2006 from MedSynergies, Inc.

The Company provides advisory services to Duane Reade Holdings, Inc., which is indirectly owned by one of its significant stockholders. The Company received approximately $203,900 and $7,880 in the three months ending June 30, 2006 and 2005, respectively, and $278,900 and $7,880 in the first six months of 2006 and 2005, respectively, in advisory fees and expense reimbursements from Duane Reade Holdings, Inc.

At June 30, 2006 the Company had a balance receivable of $389,368 related to these services.

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)
June 30, 2006
(Unaudited)

The Company entered into employment and non-competition agreements with management in November 2002. The initial term of these agreements was three years and the Company has the option to extend the term for two additional one-year periods. The agreements were extended through September 30, 2006 and include an annual base salary of $400,000, a bonus amount and an additional incentive bonus amount as well as certain other fringe benefits. Upon termination of employment under conditions as defined, 25% of certain common stock, as defined, held by such senior management is subject to repurchase by the Company at cost for up to one year and at fair market value if after one year for a two-year period. Such common stock is not subject to repurchase after three years.

Senior long-term debt of $325,000 with a five-year life issued to certain officers was amortized over a three-year period consistent with the preferred stock issued to such officers. This was fully amortized by December 2005. The Company recorded compensation expense of $27,165 and $54,330 during the three months and six months ended June 30, 2005, respectively.

For each of the three months ended June 30, 2006 and 2005, the Company accrued management fees of $50,000 to certain investors. For each of the six months ended June 30, 2006 and 2005, the Company accrued management fees of $100,000 to certain investors.

14. Geographical Information

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Revenues				
United States	$ 11,202,590	$ 8,188,686	$ 20,760,173	$ 16,876,177
United Kingdom	14,027,668	9,620,179	26,024,069	18,722,516
Rest of Europe	—	—	4,000	7,000
	$ 25,230,258	$ 17,808,865	$ 46,788,242	$ 35,605,693

	June 30, 2006	December 31, 2005
Fixed assets		
United States	$ 914,711	$ 779,961
India	13,283,106	15,425,040
UK	5,130	1,664
	$ 14,202,947	$ 16,206,665

ExlService Holdings, Inc.

Notes to Consolidated Financial Statements (continued)
June 30, 2006
(Unaudited)

15. Commitments and Contingencies

Fixed Asset Commitments

At June 30, 2006, the Company had committed to spend approximately $150,000 under agreements to purchase fixed assets. This amount is net of advances paid in respect of these purchases.

Other Commitments

Exl India and NCOP have been established as “Export-Oriented Undertaking” enterprises under the “Export Import Policy” (“policy”) formulated by the Government of India. Pursuant to this policy, the Company has benefited from certain incentives on import of capital goods. Under this policy, Exl India and NCOP must achieve certain export ratios and realize revenues attributable to exports of approximately $244.5 million and $43.4 million, respectively, over a period of five years.

In the event Exl India is unable to achieve its commitments over the specified period, Exl India may be required to refund such incentives along with penalties and fines. Management believes that Exl India will achieve these export levels within the required timeframe.

16. Subsequent Events

On July 1, 2006, the Company completed the acquisition of Inductis for approximately $13 million.

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Report of Independent Registered Certified Public Accounting Firm

Board of Directors and Stockholders of Inductis, Inc.

We have audited the accompanying consolidated balance sheets of Inductis, Inc. and subsidiaries (the "Company") as of December 31, 2005 and 2004 (Restated) and the related consolidated statements of income, stockholders' equity, and cash flows for each of the two years ended December 31, 2005. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and subsidiaries as of December 31, 2005 and 2004 (Restated), and the results of its operations and its cash flows for each of the two years ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 24, the previously issued financial statements for the year ended December 31, 2004 have been restated to correct the revenue recognition of out of pocket expenses and correction in the net deferred tax expense.

Russell Bedford Stefanou Mirchandani LLP

RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP

New York, New York
May 22, 2006
Except Note 23 (b), as to which
the date is June 18, 2006

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INDUCTIS INC.
CONSOLIDATED BALANCE SHEET
As of December 31, 2005 and 2004 (Restated)
(in US dollars, except share data)

	2005	2004 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents (Note 5)	$ 1,677,670	$ 3,615,755
Restricted cash	64,487	61,564
Accounts receivables, net of allowances	7,073,950	5,171,247
Investments (Note 8)	38,496	—
Employee advances (Note 19(b))	49,146	45,285
Deferred tax asset (Note 16)	1,435,805	936,601
Other current assets (Note 6)	317,412	138,704
Total current assets	10,656,966	9,969,156
Property and equipment, net (Note 7)	1,411,934	1,180,461
Total Assets	$ 12,068,900	$ 11,149,617
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payables	$ 551,996	$ 514,458
Short term debts (Note 12(a))	4,085,084	3,331,569
Deferred revenue	122,000	—
Current portion of capital lease obligations (Note 11(a))	131,159	126,019
Accrued employee costs	1,291,174	878,396
Other current liabilities	269,825	7,800
Deferred tax liabilities (short-term) (Note 16)	1,035,020	1,369,750
Taxes payable	406,990	36,677
Total current liabilities	7,893,248	6,264,669
Long term debts (Note 12(b))	1,400,000	—
Long term portion of Capital lease obligations (Note 11(a))	124,341	255,004
Deferred tax liabilities (long-term) (Note 16)	21,068	32,626
Other liabilities	13,100	5,181
Total liabilities	$ 9,451,757	$ 6,557,480
Stockholders' equity:		
Common Stock $0.0001 par value 10,592,518 & 6,048,700 outstanding as of 2005 & 2004 respectively. 9,770,018 & 6,048,700 issued as of 2004 & 2005 (Note 13)	1,059	605
Additional paid-in capital	988,884	—
Retained earnings	1,641,271	2,878,478
Accumulated other comprehensive income	10,007	(8,867)
Less: 822,500 shares at December 31, 2005, 2004 respectively of class C1 common stock held in treasury, at cost	(24,078)	(24,078)
Members Capital	—	1,745,999
Total stockholders' equity	2,617,143	4,592,137
Total Liabilities and Stockholders' Equity	$ 12,068,900	$ 11,149,617

The accompanying notes are an integral part of these consolidated financial statements

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INDUCTIS INC.
CONSOLIDATED STATEMENT OF INCOME
For the years ended December 31, 2005 and 2004 (Restated)
(in US dollars, except share data)

	2005	2004 (Restated)
Revenues	$ 20,947,166	$ 15,982,214
Cost of revenues	10,246,079	10,077,832
Gross Profit	10,701,087	5,904,382
Selling, general and administrative expenses	5,914,760	3,875,540
Impairment of loan receivable	2,756,500	—
Depreciation and amortization	482,316	319,434
Income from operations	1,547,511	1,709,408
Other expenses, net (Note 15)	255,321	201,791
Income before income taxes	1,292,190	1,507,617
Income tax benefit (Note 16)	558,750	554,276
Net income	$ 1,850,940	$ 2,061,893
Foreign currency adjustment gain	18,874	5,047
Comprehensive income	$ 1,869,814	$ 2,066,940
Net income per common share	$ 0.17	$ 0.19
Weighted average shares outstanding	10,760,866	11,145,044

The accompanying notes are an integral part of these consolidated financial statements

INDUCTIS INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the years ended December 31, 2005 and 2004 (Restated)
(in US dollars, except share data)

	Common Stock						Treasury Stock		
	Shares	**Amount**	**Members Capital**	**Additional paid-in capital**	**Retained Earnings**	**Other Comprehensive Income**	**Shares**	**Amount**	**Total stockholders' equity**
Balances as of January 1, 2004 (Restated)	6,048,700	$ 605	$ 2,808,439	$ —	$ 3,502,898	$ (13,914)	(822,500)	$(24,078)	$ 6,273,950
Members' contribution			564,564						564,564
Members' retirement			(668,786)		—				(668,786)
Members' distribution			(3,644,531)	—					(3,644,531)
Net income			2,686,313		(624,420)				2,061,893
Currency translation adjustment						5,047			5,047
Balances as of December 31, 2004 (Restated)	6,048,700	$ 605	$ 1,745,999	$ —	$ 2,878,478	$ (8,867)	(822,500)	$(24,078)	$ 4,592,137
Balances as of January 1, 2005	6,048,700	$ 605	$ 1,745,999	$ —	$ 2,878,478	$ (8,867)	(822,500)	$(24,078)	$ 4,592,137
Members' contribution of the former holding company			209,307						209,307
Members' retirement of the former holding company			(449,668)						(449,668)
Members' distribution of the former holding company			(3,604,447)						(3,604,447)
Net income			3,088,147		(1,237,207)				1,850,940
Membership interest exchanged for shares (Note 3)	4,543,818	454	(989,338)	988,884					—
Currency translation adjustment						18,874			18,874
Balances as of December 31, 2005	10,592,518	$1,059	$ —	$988,884	$ 1,641,271	$ 10,007	(822,500)	$(24,078)	$ 2,617,143

The accompanying notes are an integral part of these consolidated financial statements

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INDUCTIS INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2005 and 2004 (Restated)
(in US dollars, except share data)

	2005	2004
		(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,850,940	$ 2,061,893
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes (net)	(845,492)	(699,526)
Depreciation and amortization	482,316	319,434
Allowance for bad debt	150,000	—
Bad debt	147,656	—
Interest expense credited to notes payable—others	8,293	11,482
Allowance for impairment	2,756,500	—
Gain on sale of property and equipment	(2,479)	(40,979)
Changes in assets and liabilities, net		
Accounts receivables	(2,200,361)	332,358
Employee receivables	(3,861)	54,531
Other current assets	(178,708)	164,999
Accounts payable	37,538	(137,975)
Accrued employee costs	412,778	185,579
Other current liabilities	262,025	(1,700)
Taxes payable	370,313	(4,950)
Other liabilities	7,920	3,060
Deferred Revenue	122,000	—
Net cash provided by operating activities	3,377,378	2,248,206
CASH FLOWS USED IN INVESTING ACTIVITIES		
Movement in Restricted Cash	(2,923)	(717)
Purchase of property and equipment	(717,569)	(664,549)
Proceeds from sale of property and equipment	6,261	493,933
Loans extended to/by related parties	(2,756,500)	—
Proceeds from sale of investments	1,388,209	—
Purchase of investments	(1,426,705)	—
Net cash (used in) investing activities	(3,509,227)	(171,333)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Payments of principal under capital lease Obligations	(125,525)	(11,464)
Repayment of notes payable	(331,569)	—
Proceeds from short term borrowings (Including current portion of long term debt)	900,000	2,000,000
Proceeds from issuance of long term debt	1,400,000	
Members' contribution	209,308	564,564
Members' retirement	(272,877)	(348,699)
Members' distribution	(3,604,447)	(3,644,532)
Net cash (used in) financing activities	(1,825,110)	(1,440,131)
Net increase in cash and cash equivalents	(1,956,959)	636,742
Add: Gain on currency translation adjustment	18,874	5,047
Cash and cash equivalents at the beginning of the year	3,615,755	2,973,966
Cash and cash equivalents at the end of the year	$ 1,677,670	$ 3,615,755
Supplementary disclosures for the cash flow information		
Cash paid for during the year for interest	$ 377,392	$ 266,943
Cash paid for during the year for income taxes	$ 23,093	$ 33,400

The accompanying notes are an integral part of these consolidated financial statements

INDUCTIS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2005 and 2004 (Restated)
(US Dollars, except share data and as stated otherwise)

1. ORGANIZATION AND NATURE OF OPERATIONS

Incorporation and history

Inductis Inc. ("the Company"), a Delaware Corporation was incorporated on June 8, 2000. Inductis Group LLC, ("the former holding company") formed on August 27, 2002, was merged with the Company on December 31, 2005 *(See Note 3).* The Indian subsidiary of the Company, Inductis India Private Limited, was incorporated on November 19, 2001. The Company and its subsidiary are engaged in providing management consulting and business data analytics services in the field of finance, strategic marketing, re-engineering and data analysis for various clients primarily in the United States of America.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation and principles of consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") to reflect the financial position and results of operations of the Company along with its subsidiary.

The consolidated financial statements present the accounts of the Company and its wholly owned subsidiary, Inductis India Private Limited (hereinafter collectively referred to as "the Company"). All material inter-company accounts and transactions have been eliminated on consolidation.

(b) Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of revenues and expenses during the reporting periods. Estimates and assumptions are used for, but not limited to accounting for allowance for uncollectible accounts receivable, the useful lives of property and equipment. Actual results could differ from those estimates. Appropriate changes in estimates are made as management become aware of changes in circumstances surrounding the estimates. Changes in estimates are reflected in the financial statements in the period in which changes are made.

(c) Reclassifications

Certain reclassifications were made to the prior years' financial statements to conform to the current year presentation.

(d) Functional currency and exchange rate translation

The consolidated financial statements are reported in United States Dollars (US dollars). The functional currency of the subsidiary of the Company is its local currency, the Indian Rupee. The translation of the functional currency into US dollars is performed for balance sheet accounts using the exchange rates in effect at the balance sheet date and for revenue, expense and cash flow items using an appropriate monthly weighted average exchange rate for the respective periods.

INDUCTIS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2005 and 2004 (Restated)
(US Dollars, except share data and as stated otherwise)

Transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the balance sheet date. The resultant exchange gains or losses are included in the consolidated statements of income.

(e) Revenue recognition

Revenues are comprised primarily of income from time-and-material contracts. Revenue with respect to such time-and-material contracts is recognized as related services are performed.

In accordance with EITF Issue No. 01-14, *Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred,* the Company has accounted for reimbursements received for out-of-pocket expenses incurred as revenues in the statement of operations.

Revenue accrued, but not yet billed is classified as unbilled revenue, while billings on incomplete contracts in excess of accrued revenue are classified as deferred revenue.

When the Company receives advance payments from customers for the sale of products or provision of services, such payments are reported as advances from customers until all conditions for revenue recognition are met.

The Company has restated their financial statements for the year ended December 31, 2004 to reflect the reimbursed expenses in accordance with EITF Issue No 01-14. For the years ended December 31, 2005 and 2004, the reimbursement of expenses included in revenue was $1,668,316 and $724,124, respectively.

(f) Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Assets under capital leases are stated at the present value of minimum lease payments. The Company depreciates property and equipment over the estimated useful life using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the shorter of the primary lease period or estimated useful life of the asset. Assets under capital leases are amortized over their estimated useful life or the lease term, as appropriate. The cost of software obtained for internal use is capitalized and amortized over the estimated useful life of the software. The estimated useful life of the assets is as follows:

Computer and Networking equipment	3-5 years
Software	3-5 years
Office furniture and equipments	5-7 years

Advances paid towards the acquisition of property and equipment outstanding at each balance sheet date and the cost of property and equipment not put to use before such date are disclosed under capital work-in-progress.

(g) Impairment of long-lived assets and long-lived assets to be disposed of

In accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying amount of assets may not be

INDUCTIS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2005 and 2004 (Restated)
(US Dollars, except share data and as stated otherwise)

fully recoverable. Each impairment test is based on a comparison of the undiscounted cash flows expected to be generated from the use of the asset to its recorded value. If impairment is indicated, the asset is written down to its fair value. Long-lived assets to be disposed are reported at the lower of the carrying value or fair value less cost to sell. An impairment of $2,756,500 was booked for the year ended December 31, 2005 on the loan made to iTouchpoint Technologies LLC. *(see Note 9 and 19(a)).*

(h) Start-up-costs

Cost of start-up activities including organization costs are expensed as incurred.

(i) Research and development

Revenue expenditure on research and development is expensed as incurred. Capital expenditure incurred on equipment and facilities acquired or constructed for research and development activities and having alternative future uses, is capitalized as property and equipment.

There were no research and development expenses for the years ended December 31, 2005 and 2004, respectively.

(j) Investment securities

The Company accounts for investments, per SFAS No. 115 *Accounting for Certain Investments in Debt and Equity Securities,* and determined that all of its marketable securities are to be classified as available-for-sale securities. Investment securities consist of available-for-sale equity securities. Available-for-sale securities are carried at fair value based on quoted market prices.

Temporary unrealized gains and losses, net of the related tax effect are excluded from income and are reported as a separate component of other comprehensive income, until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a first-in-first-out method and are included in earnings. A decline in the fair value below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value and the resultant impairment loss is recorded in the consolidated statements of income. Dividend and interest income are recognized when earned.

(k) Cash equivalents and restricted cash

The Company considers all highly liquid investments with remaining maturities, at the date of purchase/investment, of three months or less to be cash equivalents.

The Company maintains its cash in bank deposits which at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes that it is not exposed to any significant risk on cash and cash equivalents.

Restricted Cash represents margin money deposits against guarantees issues to Government Authorities in India and deposits in lieu of security for leased premises. Restriction on margin money deposits are released on the expiry of the terms.

INDUCTIS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2005 and 2004 (Restated)
(US Dollars, except share data and as stated otherwise)

(l) Income taxes

In accordance with the provisions of SFAS 109, *Accounting for Income Taxes,* income taxes are accounted for using the asset and liability method. The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to each entity. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance of any tax benefits of which future realization is uncertain.

The former holding company which merged with the Company during 2005 had elected to be treated as a partnership for federal and state income tax purposes. A partnership is not a tax paying entity for federal or state income tax purpose. All income or losses will be reported on the individual members' income tax returns.

(m) Retirement benefits to employees

Contributions to defined contribution plans are charged to statements of income in the period in which they accrue. Defined benefit plan in case of its overseas subsidiary is based on employees' average annual compensation and years of service. The liability in respect of such plan is calculated annually by an independent actuary.

(n) Dividend

Dividends are recognized upon approval by the shareholders. During the years ended December 31, 2005 and 2004 no dividends were declared.

(o) Earnings per share

In accordance with the provisions of SFAS 128, *Earnings Per Share,* basic earnings per share is computed on the basis of the weighted average number of shares outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of common and dilutive common equivalent shares outstanding during the period except where the results will be anti-dilutive.

(p) Recently issued accounting pronouncements

Stock-Based Payments

On December 16, 2004, the FASB issued SFAS 123R, *Stock-Based Payment, an amendment of FASB Statements No. 123 and 95,* that addressed the accounting for stock-based payment transactions in which an enterprise receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. This statement eliminates the ability to account for stock-based compensation transactions using the intrinsic value method as prescribed by Accounting Principles Board, or APB, Opinion No. 25, *Accounting for*

INDUCTIS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2005 and 2004 (Restated)
(US Dollars, except share data and as stated otherwise)

Stock Issued to Employees, and requires that such transactions be accounted for using a fair-value-based method and recognized as expenses in our consolidated statement of income. The standard requires that the modified prospective method be used, which requires that the fair value of new awards granted from the beginning of the year of adoption (plus unvested awards at the date of adoption) is expensed over the vesting period. In addition, the statement encourages the use of the "binomial" approach to value stock options, which differs from the Black-Scholes option pricing model that we currently use in the footnotes to our consolidated financial statements. The revised SFAS 123R as issued by FASB will not impact on the Company's consolidated statement of income for the year ended December 31, 2005 and 2004, as the options were granted in 2006 and accordingly no adjustment was made for FAS 123R in the books for the year ended December 31, 2005.

Accounting Changes and Error Corrections

In May 2005, FASB Issued SFAS No. 154, *Accounting Changes and Error Corrections—a replacement of APB No. 20 and FAS No. 3.* SFAS 154 provide guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS 154 also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The correction of an error in previously issued financial statements is not an accounting change. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. Therefore, the reporting of a correction of an error by restating previously issued financial statements is also addressed by SFAS 154. SFAS 154 shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this standard is not expected to have any impact on the Company's consolidated financial statements for the year ended December 31, 2005.

3. CORPORATE RESTRUCTURE AND RECAPITALIZATION

In December 2005, the Company entered into an Agreement and Plan of Merger with its former holding company, (a company under common control as the Company) whereby the former holding company has been merged with the Company and the Company has become the surviving entity of the Merger. In substance the Agreement is a recapitalization of the former holding company's capital structure. The Company did not recognize goodwill or any intangible assets in connection with the transaction. The Members of the former holding company have been issued 8,937,235 Class C-1 Common Stock and 832,783 Class C-2 Common Stock in exchange of outstanding Class C-1 and Class C-2 membership units respectively of the holding company. The excess of cash paid for membership units of the former holding company over par value of Common Stock of the Company amounting to $988,884 has been reflected in Additional Paid in Capital. The results of the operations of the acquired business are included in the Company's Consolidated Financial Statements with effect from date the Company became the wholly-owned subsidiary of the former holding company. Accordingly the financial statements for each of the years ended December 31, 2005 and 2004 represents the consolidated financial statements of the Company and its former holding company.

4. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, trade receivables, and short-term loans. The cash resources of the Company are invested with

INDUCTIS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2005 and 2004 (Restated)
(US Dollars, except share data and as stated otherwise)

banks. By their nature, all such financial instruments involve risk including the credit risk of non-performance by counter parties. It is the management's opinion, as of December 31, 2005 and 2004 there were not any risk of loss in the event of non-performance of the counter parties to these financial instruments, other than the amounts already provided for in the financial statements.

The customers of the Company are based primarily in the United States and accordingly, trade receivables are concentrated in the United States. To reduce credit risk, the Company performs ongoing credit evaluation of customers.

As of December 31, 2005 and 2004 a single customer accounted for approximately 56.84% and 54.25% of revenue, respectively. The same customer accounted for approximately 76.11% and 84.16% of the receivable balance as of December 31, 2005 and 2004, respectively.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of $1,677,670 and $3,615,755 of which $694,410 and $395,545 was located in India for the years ended December 31, 2005 and 2004, respectively.

6. OTHER CURRENT ASSETS

As of December 31, other current assets comprise the following:

	2005	2004 (Restated)
Prepaid expenses	$ 29,980	$ 9,189
Prepaid taxes	102,247	83,893
Deposits	44,582	40,341
Other current assets	140,603	5,281
	$ 317,412	$ 138,704

7. PROPERTY AND EQUIPMENT

As of December 31, property and equipment comprise the following:

	2005	2004 (Restated)
Computer and networking equipment	$ 1,240,209	$ 1,078,611
Software	297,545	226,904
Office furniture and equipment	962,149	511,905
Capital work-in-progress	4,673	—
	$ 2,504,576	$ 1,817,420
Accumulated depreciation and amortization	1,092,642	636,959
Property and equipment, net	$ 1,411,934	$ 1,180,461

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Depreciation expense (including depreciation of capitalized leases and amortization expense for software) was $482,316 and $319,434 for the years ended December 31, 2005 and 2004, respectively. Accumulated depreciation and amortization includes accumulated depreciation for software of $132,511 and $80,106 as of December 31, 2005 and 2004, respectively. Depreciation expense for software for the years ended December 31, 2005 and 2004 is $52,405 and $45,471, respectively. Deletion of fixed assets for the year ended December 31, 2005 and 2004 were $30,413 and $493,933 of which accumulated depreciation was $26,633 and $33,356 respectively.

8. INVESTMENTS

Investment securities, available for sale consist of investment in units of Mutual Funds and the book value approximates the fair value of such units.

Proceeds from the sale of securities, available were $1,388,209 and $0, during the years ended December 31, 2005 and 2004, respectively. Dividend income earned from these investments during the years ended December 31, 2005 and 2004, was $5,235 and $0, respectively.

9. OTHER ASSETS

Impairment Charge

During the year ended December 31, 2005, the Company was in the process of acquiring an equity interest in iTouchpoint Technologies LLC (“iTouchpoint”). As part of this process the Company entered into a long-term bridge loan with iTouchpoint under which the Company promised to loan iTouchpoint up to $3,000,000 to assist with the funding of the business operations. After the extension of the long-term bridge loan, the principal owner of iTouchpoint also became a member of the Company’s Board of Directors. During the year ended December 31, 2005, the Company advanced $2,756,500 under this long-term bridge loan agreement to iTouchpoint. The loan is senior to all existing indebtedness of the Company and is secured by all assets of the Company. It can be called at any time in the event of default or at the end of June 2006 in case the acquisition of iTouchpoint has not been completed.

Subsequent to entering into the loan agreement, iTouchpoint has not met the sales levels the Company originally anticipated at the time of the loan was made.

Due to the significance of the continued operating losses, management performed an evaluation of the recoverability of the entire loan from iTouchPoint as described in Statement of Financial Accounting Standards No. 144 “*Account for the Impairment or Disposal of Long Lived Assets*.” Management concluded from the results of this evaluation that a significant impairment charge was required because the estimated fair value was less than the carrying value of the asset. Considerable management judgment is necessary to estimate fair value. Accordingly, actual results could vary significantly from managements’ estimates.

Based upon the evaluation, the Company recognized an asset impairment loss of $2,756,500 during the year ended December 31, 2005.

10. ALLOWANCE FOR ACCOUNTS RECEIVABLE

The Company maintains an allowance for uncollectible receivables based on the trade receivables at the end of the year. Factors utilized by management in determining the adequacy of the allowance include the present and prospective financial condition of the debtor and the aging of the trade receivables.

Allowance for accounts receivable as of December 31, 2005 and 2004, were $150,000 and $0 respectively.

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11.(a) CAPITAL LEASES

In the year ending December 31, 2004, the Company entered into a sale and leaseback arrangement with its bank. Under the agreement, the Company sold computers and related equipments and leased it back for a period of three years. For the year ended December 31, 2004, a gain of $26,679 realized in this transaction had been recognized in the statement of income.

Future minimum lease payments under such capital lease as of December 31, 2005 are as follows:

Year ending December 31,	
2006	$ 138,046
2007	126,542
Total minimum payments	264,588
Less: Amount representing future interest	9,088
Present value of minimum payments	255,500
Less: Current portion	131,159
Long term capital lease obligation	$ 124,341

11.(b) OPERATING LEASES

In the year ended December 31, 2004 the company executed a sale leaseback arrangement with the bank for three years for computers and related equipments which was accounted for as an operating lease. The gain of $14,300 was recognized in the statement of income for the year ended December 31, 2004.

The Company is obliged under non-cancelable operating leases for its offices in New Jersey and New York expiring in April 2008 and September 2007, respectively. Future minimum lease payments as of December 31, 2005 for such non-cancelable operating leases are as follows:

Year ending December 31,	
2006	$ 466,287
2007	444,858
2008	149,120
Total minimum payments	$ 1,060,265

The Company is also obligated to pay certain real estate taxes and other expenses under the lease term. The New York Office lease is personally guaranteed by the principal owner of the Company.

Additionally, the Company leases guest house facilities under cancelable operating lease agreements that are renewable on a periodic basis at the option of both the lessor and the lessee.

Rental expense under operating leases is $432,855 and $366,273 for the years ended December 31, 2005 and 2004, respectively.

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12.(a) SHORT TERM DEBTS

The Company has line of credit facilities from its bank aggregating $3,500,000 for financing its fund based working capital requirements. These facilities bear interest at the bank's prime rate. Borrowing under the agreement is collateralized by substantially all the Company's assets and personal guarantee from the managing principal. The outstanding balance against fund-based facility is $3,500,000 and $3,000,000 for the years ended December 31, 2005 and 2004, respectively.

Further, the company has a ten percent (10%) interest bearing promissory note payable to ex-members. The outstanding balance against these notes payable is $185,084 and $331,569 for the years ended December 31, 2005 and 2004, respectively.

As of December 31, short-term debt comprises of:

	2005	2004 (Restated)
Short term debts	$ 3,500,000	$ 3,000,000
Current portion of the long term debt	400,000	—
Promissory note payable	185,084	331,569
Total	$ 4,085,084	$ 3,331,569

The promissory note payable of $185,084 includes $49,289 payable to its ex-member of the former holding company. The Company is contemplating litigation with the ex-member, as the Company alleges that the ex-member is in breech of some of the terms of the Repurchase Agreement with the Company. Currently the Company has notified the ex-member that he has forfeited his rights to the balance due of $49,289.

12.(b) LONG TERM DEBTS

In 2005, the Company obtained a term loan of $1,800,000 to finance the working capital relating to the proposed purchase of assets of iTouchpoint Technologies LLC. The term loan bears an interest rate based on the prime rate less 25 basis points and is collateralized by substantially all the Company's assets and the personal guarantees of the managing principal and principal owner of iTouchpoint Technologies LLC.

As of December 31, long-term debt comprises of:

	2005	2004 (Restated)
Secured long term debt	$1,800,000	$ —
Less: current portion of long term debt	400,000	—
Total	$1,400,000	$ —

INDUCTIS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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The maturity profile of term loan as of December 31, 2005 is as follows:

December 31, 2006	$ 400,000	$ —
December 31, 2007	600,000	—
December 31, 2008	600,000	—
December 31, 2009 & beyond	200,000	—
Total	$ 1,800,000	$ —

13. COMMON STOCK

The Company has two classes of Common Stock; Class C-1 Common Stock and Class C-2 Common Stock. Par value of each Common Stock as of December 31, 2005 is $0.0001.

Each outstanding vested Class C-1 and Class C-2 membership unit of the former holding company has been exchanged for one share of Class C-1 Common Stock and Class C-2 Common Stock of the Company, respectively. Each outstanding unvested Class C-1 and Class C-2 units of the former holding company has been exchanged for Class C-1 Common Stock and Class C-2 Common Stock of the Company respectively, referred to as Restricted Shares, which shall be subject to forfeiture and repurchase by the Company as per the Stockholders' Agreement dated December 31, 2005 (*See Note 3*).

The detail of Common Stock of the Company for the year ended December 31, 2005 is as below:

	Class C-1 Stock	Class C-2 Stock	Total
Common Stock-other than restricted			
Shares	6,557,062	478,806	7,035,868
Restricted Shares	2,380,173	353,977	2,734,150
Total	8,937,235	832,783	9,770,018
Treasury Stock	822,500	—	822,500
Total Stock	9,759,735	832,783	10,592,518

Each holder of Class C-1 Common Stock in entitled to one vote per share.

The details of membership units of the former holding company for the years ended December 31, 2004 are as below:

For the year ended December 31, 2004:

	Class C-1 Stock	Class C-2 Stock	Total
Vested Unites	4,149,598	426,598	4,576,196
Unvested Unites	4,754,041	777,478	5,531,519
Total	8,903,639	1,204,076	10,107,715
Treasury stock	822,500	—	822,500
Total Stock	9,726,139	1,204,076	10,930,215

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INDUCTIS INC.
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Class C-1 unit holders had the voting capital interest in the affairs of the Company whereas Class C-2 unit holders represent non-voting capital interest. The unit holders were entitled to interest at the rate of 10% on capital contribution. The former holding company has charged interest of $257,803 and $253,259 on capital contributions for the years ended December 31, 2005 and 2004, respectively, which has been recorded in net other expenses.

14. STOCK OPTION PLAN

The Company has formed a 2005 Equity Compensation Plan, whereby Stock Options, Stock Purchase rights, Stock Awards, Stock Appreciation Rights and Unrestricted Shares may be granted to the Service Providers and Employees of the Company. As of December 31, 2005 the company has not issued any equity instruments related to the 2005 Equity Compensation Plan *(See Note 23 (c))*

15. OTHER EXPENSE, NET

Interest and other income comprise the following:

	2005	2004 (Restated)
Interest & dividend income	$ (11,365)	$ (8,906)
Foreign exchange loss, net	8,867	14,322
Miscellaneous income	(121,323)	(109,552)
Empire State Development Corporation	(40,250)	—
Interest and other finance costs	419,392	305,927
Other expenses net	$ 255,321	$ 201,791

16. INCOME TAXES

The individual entities within the Group Company file individual tax returns as per regulations existing in their respective countries of domicile.

Income tax benefit attributable to income from continuing operations for the years ended December 31, 2005 and 2004 consists of:

	2005	2004 (Restated)
Current—		
U.S Taxes	$ 194,934	$ 42,111
Others	91,809	103,139
Total	$ 286,743	$ 145,250
Deferred—		
U.S Taxes	(845,493)	(699,526)
Others	—	—
Total	$ (845,493)	$ (699,526)
Total tax benefit	$ (558,750)	$ (554,276)

INDUCTIS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the years ended December 31, 2005 and 2004 (Restated)

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A reconciliation of the income tax expense to the amount computed by applying the statutory income tax rate to income tax expense for the years ended December 31, 2005 and 2004 is:

	2005	2004 (Restated)
Net Income before taxes	$ 1,311,064	$ 1,512,664
Less: foreign subsidiary (India) net income before taxes	2,952,630	2,882,860
Taxable Income	(1,641,566)	(1,370,196)
Enacted Tax rate	34%	34%
Computed tax expense	(558,132)	(465,867)
State income taxes, net of federal tax benefit	(170,364)	(233,621)
Foreign taxes	60,594	103,139
DTL beginning balance adjustment	35,245	125,400
Foreign earnings permanently reinvested	(123,866)	(135,625)
Extraordinary Dividend	138,928	39,598
Other adjustments	58,845	12,700
Income taxes recognized in the statement of income	$ (558,750)	$ (554,276)

The components of the deferred tax balances as of December 31, 2005 and 2004 are as follows:

	2005	2004 (Restated)
Deferred tax assets:		
Accrued employee costs	$ 107,170	$ 38,976
Net operating losses	2,959	846,394
Allowance for impairment of loan receivable	1,296,045	—
Others	29,631	51,231
Total deferred tax assets	$ 1,435,805	$ 936,601
Deferred tax liabilities:		
Excess of accrual basis over cash basis taxable income	$ 1,020,555	$ 1,352,672
Others temporary difference	35,533	49,704
Total deferred tax liabilities	$ 1,056,088	$ 1,402,376

As at December 31, 2004, the Company had a US State Net Operating loss carried forward of approximately $1,954,700 which gets fully utilized for the year ended December 31, 2005. The Company has state and local Net Operating Loss carry forwards that were suspended due to state and local restrictions.

During the year ended December 31, 2005, pursuant to Section 481 of the Code, the Company has changed its method of accounting for tax purposes from cash to accrual and has opted to offer the difference between the cash basis and accrual basis income over a period of four years. As of December 31, 2005, such difference to be adjusted with taxable income of the Company over future years amounts to $2,342,598 and a deferred tax liability has been created. The former holding has also changed from cash basis to accrual basis of accounting for tax purposes at merger with the Company and the difference has been added to the income of the members.

INDUCTIS INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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Under APB 23, a provision for tax has not been provided at December 31, 2005, for the U.S operations or additional foreign withholding taxes on the undistributed earnings of the foreign subsidiary because it is the present intention of management to reinvest the undistributed earnings indefinitely in foreign operations. Generally, such earnings become subject to U.S. Tax upon the remittance of dividend and under certain other circumstances, such as disposition of foreign subsidiary operations. Undistributed earnings of foreign subsidiary were $1,226,952 and $1,251,550 as of December 31, 2005 and 2004, respectively.

Also in the year ended December 31, 2005, $409,948 (net) was remitted as dividend to the U.S Parent and $70,772 in foreign tax was paid at source. In addition the divided was taxable to the U.S Corporation. Due to the favorable Divided Received Deduction provisions of the American Jobs Creation Act of 2004, tax was provided at only fifteen percent (15%) of the dividend remitted from foreign subsidiary. The ultimate tax liability related to repatriation of such earnings is dependent upon future tax planning opportunities and is not estimable at the present time. Further in the year ended December 31, 2004, $776,422 was remitted as dividend to the U.S. parent and $102,234 in foreign tax was paid at source. Such Dividend was offered for tax in the annual tax return of the Company.

The former holding company had elected to be treated as a partnership for federal and state income tax purposes and hence is not a tax paying entity for federal or state income tax purpose. All income or losses will be reported on the individual members' income tax returns.

A substantial portion of the profits of the Company's India operations is exempt from income tax being profits attributable to export operations of undertaking situated in Software Technology Parks (STP). Under the tax holiday, the taxpayer can utilize an exemption from income tax for a period of any ten consecutive years beginning from the financial year when the unit started operations. The tax holiday under such STP expires in March 2009. Deferred Tax in respect of timing differences which originate and reverse during the tax holiday period are not recognized.

17. EMPLOYEE BENEFIT PLANS

US Operations

The Company has a 401K plan which all employees are eligible to participate in upon joining. Employees may make voluntary contributions during the year up to the maximum contributions allowable by law. The Company also has a profit sharing plan which all employees who have a minimum of six month employment and is employed on year end with the Company are eligible to participate in the profit sharing for that year. All employees receive contributions through the profit sharing plan based on their level in the company, with junior members receiving the smallest amounts approximately 3% and senior members receiving the most approximately 8%, up to legally allowable levels.

Total contributions made to the plan by the Company, for the years ended December 31, 2005 and 2004 is $130,929 and $137,898, respectively.

India Operations

The Company has employee benefit plans in the form of certain statutory and welfare schemes covering substantially all of its employees.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Gratuity

In accordance with Indian law, the Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering all employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment at an amount based on the respective employee's salary and the years of employment with the Company (minimum of 5 years of continuous employment is required). Such liability actuarially valued as at December 31, 2005 and 2004 is $13,097 and $5,179, respectively and has not been funded.

Provident fund

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined contribution retirement plan. Under this plan, the employer and employee make monthly contributions to a fund managed by the government authorities. The employees contribute 12% of their base compensation, which is matched by an equal contribution by the employer.

Total contributions made by the Company in respect of this plan for the years ended December 31, 2005, and 2004 are $4,066 and $2,450, respectively.

18. SEGMENT INFORMATION

In the opinion of the management the Company operates in a single business segment of providing management consulting and business data analytics services in the field of finance, strategic marketing, re-engineering and data analysis for various clients in the United States of America. The Company operates in single geographical segment hence there are no separable segments as mentioned in SFAS 131, accordingly no disclosures have been included in the financial statements for the year ended December 31, 2005 and 2004.

19. RELATED PARTY TRANSACTION

The Company has entered into transactions with the following related parties:

a) iTouchpoint Technologies LLC, in which a director of the Company has a significant ownership interest, controlling interest or over which he exercises significant influence.

During the year ended December 31, 2005, the Company advanced $2,756,500 to iTouchPoint technologies LLC, whose principal owner is a member of the Company's Board of Directors. The Company's management performed an evaluation of the recoverability of the entire loan and concluded from the results of this evaluation that a significant impairment charge was required because estimated fair value was less than the carrying value of the asset.

Based upon the evaluation, the Company recognized an asset impairment loss of $2,756,500 during the year ended December 31, 2005 (*see Note 9*)

b) Employee advances are $49,146 and $45,285 as of December 31, 2005 and 2004, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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20. EARNINGS PER SHARE

The following table presents the computation of basic and diluted earnings per share as of December 31:

	2005	2004 (Restated)
Net income available to Common stockholders	$ 1,850,940	$ 2,061,893
Basic and diluted earnings (loss) per share	$ 0.17	$ 0.19
Weighted average common shares outstanding	10,760,866	11,145,044

Net earnings per share is based upon the weighted average of shares of common stock outstanding. On December 31, 2005, the Company entered into an Agreement and Plan of Merger (*see Note 3*). Accordingly, all historical weighted average share and per share amounts have been restated to reflect the recapitalization of the Company as if the exchange of equity interests occurred on January 1, 2004.

21. CONTINGENCIES AND COMMITMENTS

Capital commitments

As of December 31, 2005 and 2004, the Company had no capital commitments.

Other commitments

The Company's operations in India are in Software Technology Park (STP) under the STP guidelines issued by the Government of India. These units are exempted from customs and central excise duties and levies on imported and indigenous capital goods. The Company has executed legal undertakings to pay customs duty, central excise duty, levies and liquidated damages payable, if any, in respect of imported and indigenous capital goods and stores and spares consumed duty free, in the event that certain terms and conditions are not fulfilled.

Guarantees

The company has provided guarantees to the regulatory authorities as security for compliance with local regulations. The aggregate amount of such guarantees as of December 31, 2005 and 2004 is $6,980 and $3,647, respectively.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of the Company's current assets and current liabilities approximate their carrying values because of their short-term maturity. Such financial instruments are classified as current and are expected to be liquidated within the next twelve months. The fair value of the variable rate long term debt approximates its carrying value.

23. SUBSEQUENT EVENTS

(a) Letter of Intent

Subsequent to the date of the financial statements, the Company signed a letter of intent on March 14, 2006 with EXLService.com, Inc., a company registered with the State of Delaware, engaged in the business of business process outsourcing. As per the terms of the letter of intent, the Company will be acquired 100% by EXLService.com, Inc. on a going concern basis for a total purchase consideration of approximately $40 million. The shareholders of the Company will receive $2 million in cash, 535,918 shares of Series A common stock of

INDUCTIS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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EXLService.com, Inc, the potential to earn an additional 421,063 shares of Series A common stock of EXLService.com, provided certain revenue and profitability targets are met, and potential upside payments of $10 million in cash or equity at the then current market price if additional revenue and profit targets are met. EXL Holdings Inc. will assume all the assets and liabilities of the Company on the date of acquisition, with the exception of the iTouchpoint receivable (*see Note 9*).

The Company's Board approved the signing of the LOI on March 14, 2006.

(b) Asset acquisition of iTouchpoint Technologies LLC.

The Company has entered into an Asset Purchase agreement with iTouchpoint Technologies LLC., a Delaware limited liability company, whereby the Company through its newly formed wholly owned subsidiary, iTouchpoint Services LLC., will acquire certain assets and liabilities relating to the business of iTouchpoint Technologies LLC. The transaction is subject to iTouchpoint Technologies LLC acquiring 100% of iTouchpoint Softech Pvt. Limited. The term sheet for the acquisition expired on June 1, 2006.

The Company has intended not to renew the term sheet and that the note receivable from iTouchpoint Technologies LLC will be distributed as a dividend net of the impairments to its shareholders as part of the acquisition with EXLService.com, Inc. transaction.

(c) Stock Option Plan

The Company has formed a 2005 Equity Compensation Plan, whereby Stock Options, Stock Purchase rights, Stock Awards, Stock Appreciation Rights and Unrestricted Shares may be granted to the Service Providers and Employees of the Company. Under such plan, the maximum aggregate number of shares that may be issued is 7,500,000 shares consisting of 3,400,000 shares of Class C-1 Common Stock and 4,100,000 shares of Class C-2 Common Stock. During the year, the Board has approved stock options amounting to $666,375 to be issued at an exercise price of $0.25 per share to certain employees, and to be granted upon the completion of corporate restructuring necessary to make Inductis Inc. the parent company. The options have not been granted as of December 31, 2005.

Under the Inductis India Private Limited Stock Purchase Plan 2003, employees of the foreign subsidiary have been issued 41,104 and 40,366 membership units of the former holding company during the years ended December 31, 2005 and 2004, respectively, $580 and $412 was paid by the foreign subsidiary during the years ended December 31, 2005 and 2004, respectively, for such units have been accounted as Employee Compensation Expense under Cost of Sales in the Income Statement. Such membership units have been converted into Common Stock of the Company pursuant to the merger.

24. RESTATEMENT OF FINANCIAL STATEMENTS

The Company has restated its financials statements for the year December 31, 2004 to correct the following errors in the financial statements previously filed:

- The Company historically accounted for net out of pocket expenditures and revenues as current assets and liabilities on the balance sheet and adjusted it as revenue or expense once it was substantiated as of December 31, 2004.
- The Company corrected the deferred taxes for the year ended December 31, 2004.

INDUCTIS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the years ended December 31, 2005 and 2004 (Restated)
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The restatement did affect the individual components of the Company's assets and liabilities and equity as reported on its Balance Sheet as of December 31, 2004, as well as individual components of the Company's revenues and cost of sales as reported on its Statement of Income for the year then ended.

Following are reconciliations of the Company's restatement of the Balance Sheet as of December 31, 2004:

	December 31, 2004	
	(As Restated)	(As Reported)
Assets		
Deferred tax asset	$ 936,601	$ —
Prepaid taxes	83,893	86,711
Liabilities		
Other current liabilities	256,509	290,484
Deferred tax liability	1,402,376	10,868
Corporate tax payable	36,677	2,700

Following are reconciliations of the Company's restatement of the Consolidated Statement of Income as of December 31, 2004:

	December 31, 2004	
	(As Restated)	(As Reported)
Revenues	$ 15,982,214	$ 16,573,707
Cost of revenues	10,077,832	10,857,145
Gross margin	5,904,382	5,716,562
Selling, general, and administrative	3,875,540	3,343,371
Depreciation and amortization	319,434	319,434
Total operating expenses	$ 4,194,974	$ 3,662,805
Income for operations	1,709,408	2,053,757
Other expenses	201,791	205,968
Taxes (benefit) expense	(554,276)	278,700
Net Income (loss)	$ 2,061,893	$ 1,569,089

Following are reconciliations of the Company's restatement of the Consolidated Statement of Cash Flows as of December 31, 2004:

	December 31, 2004	
	(As Restated)	(As Reported)
Net income	$ 2,061,893	$ 1,569,089
Net cash provided by operations	2,248,206	2,253,202
Net cash used in investing	(171,333)	(170,614)
Net cash used in financing activities	(1,440,131)	(1,440,131)
Net increase in cash	$ 636,742	$ 642,457

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The Company has restated the December 31, 2003 capital accounts to reflect adjustments in the net out of pocket expenses which has been reclassified into revenue pursuant to EITF 14. The Company historically accounted for the net out of pocket expense on the balance sheet, and adjusted in through revenue once the complete accounting was provided by the service provider. In addition the Company has also adjusted its opening capital accounts to book the correct deferred tax liabilities.

Capital Account as originally reported as of December 31, 2003	$ 7,229,527
Add out of pocket expenses related to 2003	335,125
Less deferred tax provisions	(1,290,702)
Adjusted Capital January 1, 2004	$ 6,273,950

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INDUCTIS INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(in US dollars, except share data)

	June 30, 2006 Unaudited	June 30, 2005 Unaudited
ASSETS		
Current assets:		
Cash and cash equivalents (Note 6)	$ 1,440,617	$ 1,677,670
Restricted cash	63,700	64,487
Accounts receivables, net of allowances	7,235,107	7,073,950
Investments	6,905	38,496
Employee receivables (Note 19(b))	951,064	49,146
Deferred income taxes (Note 16)	2,079,031	1,435,805
Other current assets (Note 7)	670,151	317,412
Total current assets	12,446,575	10,656,966
Property and equipment, net (Note 8)	1,548,897	1,411,934
Total Assets	$ 13,995,472	$ 12,068,900
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payables	$ 703,021	$ 551,996
Short term debts (Note 13(a))	3,201,713	4,085,084
Deferred revenue	9,762	122,000
Current portion of capital lease obligations (Note 12(b))	133,482	131,159
Accrued employee costs	3,273,303	1,291,174
Other current liabilities	996,408	269,825
Deferred income taxes (Note 16)	861,312	1,035,020
Taxes Payable	487,036	406,990
Total current liabilities	9,666,037	7,893,248
Long term debts (Note 13(b))	1,100,000	1,400,000
Capital lease obligations, excluding current portion (Note 12(a))	56,977	124,341
Deferred taxes payable (Note 16)	8,314	21,068
Others	18,046	13,100
Total Liabilities	$ 10,849,374	$ 9,451,757
Stockholders' Equity:		
Common Stock $0.0001 par value	—	—
Issued 12,265,980 shares, outstanding and Issued 11,009,176 shares (Note 14)	1,227	1,059
Additional paid-in capital	2,789,727	988,884
Retained earnings	1,074,533	1,641,271
Deferred stock compensation cost	(729,012)	(24,078)
Less: 1,256,804 shares at June 30, 2006 of class C1 and C2 common stock held in treasury	(729,012)	(24,078)
Other Comprehensive Income	9,623	10,007
Total Stockholders' Equity	3,146,098	2,617,143
Total Liabilities and Stockholders' Equity	$ 13,995,472	$ 12,068,900

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

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INDUCTIS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the six months ended June 30, 2006 and 2005
(in US dollars, except share data)

	2006 Unaudited	2005 Unaudited
Revenues, Net	$ 13,568,423	$ 9,162,900
Cost of revenues	8,071,864	6,067,460
Gross Profit	5,496,559	3,095,440
Selling, general and administrative expenses	5,558,496	2,957,538
Impairment of loan receivable	325,000	150,000
Depreciation and amortization	329,571	155,264
Loss from operations	(716,508)	(167,362)
Stock based compensation	—	—
Other expenses, net (Note 15)	58,567	167,476
Loss before income taxes	(775,075)	(334,838)
Income tax benefit (Note 16)	(208,337)	(336,967)
Net (Loss)/Income	(566,738)	2,129
Foreign currency adjustment (gain)/loss	384	(6,455)
Comprehensive (Loss)/Income	$ (567,122)	8,584
Net (Loss)/Income Per Share		
Basic	$ (0.05)	$ 0.00
Diluted	$ (0.05)	$ 0.00
Weighted Average Common Shares		
Basic	12,265,980	10,302,436
Diluted	12,265,980	10,302,436

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

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INDUCTIS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2006 and 2005
(in US dollars, except share data)

	2006 Unaudited	2005 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/(loss)	$ (566,738)	$ 2,129
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes (net)	(829,688)	(351,758)
Depreciation and amortization	329,571	155,264
Allowance for bad debt	320,000	—
Bad debt	(364,952)	4,963
Allowance for impairment	325,000	150,000
Interest expense credited to notes payable—other	2,424	10,080
Stock based compensation cost	670,852	—
Compensation cost for restricted and unrestricted stock	180,010	—
(Gain) on sale of property and equipment	(11)	—
Changes in assets and liabilities, net		
Accounts receivables	(116,205)	(1,034,222)
Employee receivables	(901,918)	(36,339)
Other assets	(172,739)	(30,826)
Accounts payable	151,025	7,056
Accrued employee costs	1,982,129	1,651,269
Other current liabilities	726,583	28,838
Taxes payable	80,046	12,388
Other liabilities	4,949	3,570
Deferred revenue	(112,238)	—
Net cash provided by operating activities	1,708,100)	572,412
CASH FLOWS FROM INVESTING ACTIVITIES		
Movement in restricted cash	787	(641)
Purchase of property and equipment	(466,590)	(82,995)
Proceeds from sale of property and equipment	65	—
Loans extended to related parties	(325,000)	(150,000)
Proceeds from sale of investments	603,124	401,967
Purchase of investments	(571,533)	(670,005)
Net cash used in investing activities	(759,147)	(501,674)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of principal under capital lease Obligations	(65,042)	0
Repayment of notes payable	(135,795)	(232,330)
Additions in notes payable	—	128,307
Payment to close lease	(180,000)	
Repayment of bank borrowings	(750,000)	(1,500,000
Proceeds from issuance of equity stock	245,215	
Repayment of long term debt	(300,000)	—
Members' contribution		5,138
Members' retirement		(288,297)
Members' distribution	—	(719,217)
Net cash used in financing activities	(1,185,622)	(2,606,399)
Net decrease in cash and cash equivalents	(236,669)	(2,535,662)
Add: Loss on currency translation adjustment	(384)	6,455
Cash and cash equivalents at beginning of the period	1,677,670	3,615,755
Cash and cash equivalents at end of the period	$ 1,440,617	$ 1,086,548
Supplementary cash flow information		
Cash paid during the six months ended for interest	$ 142,908	$ 28,628
Cash paid during the six months ended for income taxes	540,617	13,216

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

1. ORGANIZATION AND NATURE OF OPERATIONS

Incorporation and history

The interim unaudited condensed consolidated financial statements present the accounts of Inductis, Inc., incorporated on June 8, 2000 (the "Company"), and its wholly owned subsidiaries, Inductis LLC, Inductis (India) Private Limited incorporated on November 19, 2001 and Inductis (Singapore) Pte Limited, incorporated on April 7, 2006 (hereinafter collectively referred to as the "Company"). Inductis Group LLC (the "former holding company") formed on August 27, 2002, was merged with the Company on December 31, 2005. All inter-company accounts and transactions have been eliminated on consolidation.

The accompanying unaudited interim condensed consolidated financial statements of the Company and its subsidiary companies do not include all of the information and note disclosures required by U.S. generally accepted accounting principles for complete financial statements. The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S generally accepted accounting principles and reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair presentation of results for these periods. The results of operations for the period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2006. The condensed consolidated balance sheet for the twelve months ended December 31, 2005 was derived from the audited consolidated balance sheet of Inductis, Inc.

Certain prior-period amounts have been reclassified to conform to the current-period presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation and principles of consolidation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") to reflect the financial position and results of operations of the Company along with its subsidiaries.

The unaudited interim condensed consolidated financial statements present the accounts of the Company and its wholly owned subsidiaries, Inductis LLC., Inductis (India) Private Limited and Inductis (Singapore) Pte Limited. All material inter-company accounts and transactions have been eliminated on consolidation.

(b) Use of estimates

The preparation of unaudited interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Estimates and assumptions are used for, but not limited to accounting for allowance for uncollectible accounts receivable, the useful lives of property and equipment. Actual results could differ from those estimates. Appropriate changes in estimates are made as management become aware of changes in circumstances surrounding the estimates. Changes in estimates are reflected in the financial statements in the period in which changes are made.

(c) Reclassifications

Certain reclassifications were made to the prior periods' financial statements to conform to the current year presentation.

INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

(d) Functional currency and exchange rate translation

The unaudited interim consolidated financial statements are reported in United States Dollars (US dollars). The functional currency of Inductis (India) Pvt Limited is Indian Rupees and for Inductis (Singapore) Pte Limited is the Singapore Dollar. The translation of the functional currency into US dollars is performed for balance sheet accounts using the exchange rates in effect at the balance sheet date and for revenue, expense and cash flow items using an appropriate monthly weighted average exchange rate for the respective quarters.

Transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the balance sheet date. The resultant exchange gains or losses are included in the other comprehensive income.

(e) Revenue recognition

Revenues are comprised primarily of income from time-and-material contracts. Revenue with respect to such time-and-material contracts is recognized as related services are performed.

In accordance with EITF Issue No. 01-14, *Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred*, the Company has accounted for reimbursements received for out-of-pocket expenses incurred as revenues in the consolidated statements of operation.

Revenue accrued, but not yet billed is classified as unbilled revenue, while billings on incomplete contracts in excess of accrued revenue are classified as deferred revenue.

When the Company receives advance payments from customers for the sale of products or provision of services, such payments are reported as advances from customers until all conditions for revenue recognition are met.

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

	2006	2005
Six months ended June 30,	$ 1,118,986	$ 869,780

(f) Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Assets under capital leases are stated at the present value of minimum lease payments. The Company depreciates property and equipment over the estimated useful life using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the shorter of the primary lease period or estimated useful life of the asset. Assets under capital leases are amortized over their estimated useful life or the lease term, as appropriate. The cost of software obtained for internal use is capitalized and amortized over the estimated useful life of the software.

The estimated useful life of the assets is as follows:

Computer and Networking equipment	3-5 years
Software	3-5 years
Office furniture and equipments	5-7 years

Advances paid towards the acquisition of property and equipment outstanding at each balance sheet date and the cost of property and equipment not put to use before such date are disclosed under capital work-in-progress.

INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

(g) Impairment of long-lived assets and long-lived assets to be disposed of

In accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying amount of assets may not be fully recoverable. Each impairment test is based on a comparison of the undiscounted cash flows expected to be generated from the use of the asset to its recorded value. If impairment is indicated, the asset is written down to its fair value. Long-lived assets to be disposed are reported at the lower of the carrying value or fair value less cost to sell. Impairment on the loan made to iTouchpoint Technologies LLC.,(*see Note 10*) is as follows:

	2006	2005
Six months ended June 30,	$ 325,000	$ 150,000

(h) Start-up-costs

Cost of start-up activities including organization costs are expensed as incurred.

(i) Research and development

Revenue expenditure on research and development is expensed as incurred. Capital expenditure incurred on equipment and facilities acquired or constructed for research and development activities and having alternative future uses, is capitalized as property and equipment.

There were no research and development expenses for the six months ended June 30, 2006 & 2005, respectively.

(j) Investment securities

The Company accounts for investments, per SFAS No. 115 *Accounting for Certain Investments in Debt and Equity Securities*, and determined that all of its marketable securities are to be classified as available-for-sale securities. Investment securities consist of available-for-sale equity securities. Available-for-sale securities are carried at fair value based on quoted market prices.

Temporary unrealized gains and losses, net of the related tax effect are excluded from income and are reported as a separate component of other comprehensive income, until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a first-in-first-out method and are included in earnings. A decline in the fair value below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value and the resultant impairment loss is recorded in the consolidated statements of income. Dividend and interest income are recognized when earned.

(k) Cash equivalents and restricted cash

The Company considers all highly liquid investments with remaining maturities, at the date of purchase/investment, of three months or less to be cash equivalents.

The Company maintains its cash in bank deposits, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes that it is not exposed to any significant risk on cash and cash equivalents.

Restricted Cash represents margin money deposits against guarantees issues to Government Authorities in India and deposits in lieu of security for leased premises. Restriction on margin money deposits are released on the expiry of the terms.

INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

(l) Income taxes

In accordance with the provisions of SFAS 109, *Accounting for Income Taxes*, income taxes are accounted for using the asset and liability method. The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to each entity. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance of any tax benefits of which future realization is uncertain.

The former holding company which merged with the Company on December 31, 2005 had elected to be treated as a partnership for federal and state income tax purposes. A partnership is not a tax paying entity for federal or state income tax purpose. All income or losses will be reported on the individual members' income tax returns.

(m) Retirement benefits to employees

Contributions to defined contribution plans are charged to statements of income in the period in which they accrue. Defined benefit plan in case of its overseas subsidiary is based on employees' average annual compensation and years of service. The liability in respect of such plan is calculated annually by an independent actuary.

(n) Dividend

Dividends are recognized upon approval by the shareholders. For the six months ended June 30, 2006 and 2005, no dividends were declared.

(o) Earnings per share

In accordance with the provisions of SFAS 128, *Earnings per Share*, basic earnings per share is computed on the basis of the weighted average number of shares outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of common and dilutive common equivalent shares outstanding during the period except where the results will be anti-dilutive.

(p) Recently issued accounting pronouncements

Stock-Based Payments

On December 16, 2004, the FASB issued SFAS 123R, *Stock-Based Payment, an Amendment of FASB Statements No. 123 and 95*, that addressed the accounting for stock-based payment transactions in which an enterprise receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. This statement eliminates the ability to account for stock-based compensation transactions using the intrinsic value method as prescribed by Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees*, and requires that such transactions be accounted for using a fair-value-based method and recognized as expenses in our consolidated statement of income. The standard requires that the modified prospective method be used, which requires that the fair value of new awards granted from the beginning of the

INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

year of adoption (plus unvested awards at the date of adoption) is expensed over the vesting period. In addition, the statement encourages the use of the "binomial" approach to value stock options, which differs from the Black-Scholes option pricing model that we currently use in the footnotes to our consolidated financial statements. Per revised SFAS 123R issued by FASB, an expense of $670,852 and $0 for the six months ended June 30, 2006 and 2005, respectively was booked.

Accounting for Certain Hybrid Financial Instruments

In February 2006, the FASB issued SFAS No. 155, "*Accounting for Certain Hybrid Financial Instruments—an Amendment of FASB Statements No. 133 and 140*," or SFAS No. 155. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company has not completed evaluation of the SFAS No. 155 and its effect on consolidated financial statements.

Accounting for Servicing of Financial Assets

In March 2006, the FASB issued SFAS No. 156, "*Accounting for Servicing of Financial Assets—an Amendment to FASB Statement No. 140*," or SFAS No. 156, which clarifies the accounting for separately recognized servicing assets and liabilities. SFAS No. 156 is effective in fiscal years beginning after September 15, 2006. The Company does not believe the adoption of SFAS No. 156 will have a material impact on the consolidated financial position, results of operations or cash flows.

3. CORPORATE RESTRUCTURE AND RECAPITALIZATION

Merger with Holding Company

In December 2005, the Company entered into an Agreement and Plan of Merger with its former holding company, (a company under common control as the Company) whereby the former holding company has been merged with the Company and the Company has become the surviving entity of the merger. The Members of the former holding company have been issued 8,937,235 Class C-1 Common Stock and 832,783 Class C-2 Common Stock in exchange of outstanding Class C-1 and Class C-2 membership units respectively of the former holding company. The excess of the cash paid for membership units of the former holding company over par value of Common Stock of the Company amounting to $988,884 has been reflected in Additional Paid-in Capital. The results of the operations of the acquired business are included in the Company's Consolidated Financial Statements with effect from date the Company became the wholly owned subsidiary of the former holding company. Accordingly, the financial statements for the six months ended June 30, 2006 and 2005 represent the un-audited interim condensed consolidated financial statements of the Company and its former holding company.

INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

4. MERGER WITH EXLSERVICE. MERGER SUB, INC.

On July 1, 2006, the Company merged with ExlService Merger Sub, Inc., a wholly owned subsidiary of ExlService Holdings, Inc., a Delaware corporation ("Exl"), with Exl being the corporation that survived the merger. See Note 23(a) for details.

5. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents, trade receivables, and short-term loans. The cash resources of the Company are invested with banks. By their nature, all such financial instruments involve risk including the credit risk of non-performance by counterparties. It is the management's opinion, as of June 30, 2006 and 2005, there was not any risk of loss in the event of non-performance of the counterparties to these financial instruments, other than the amounts already provided for in the financial statements.

The customers of the Company are based primarily in the United States and accordingly, trade receivables are concentrated in the United States. To reduce credit risk, the Company performs ongoing credit evaluation of customers.

For the six months ended June 30, 2006 and 2005, a single customer accounted for approximately 59% and 54% of revenue, respectively. The same customer accounted for approximately 65% and 67% of the receivable balance as of June 30, 2006 and December 31, 2005, respectively.

6. SHARE BASED COMPENSATION

In December 2004, the Financial Accounting Standards Board issued SFAS 123R, *Share-Based Payment* ("SFAS 123R"). SFAS 123R supersedes SFAS 123, *Accounting for Stock Based Compensation*, and Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees* ("APB 25") and its related implementation guidance. On January 1, 2006, the Company adopted the provisions of SFAS 123R using the modified prospective transition method. Under this method, the Company is required to record compensation expense for all stock based awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding as of the beginning of the adoption. The Company has not restated its financial statements for prior periods. Under SFAS 123R, compensation expense related to stock based payments are recorded over the requisite service period based on the grant date fair value of the awards.

Prior to the adoption of SFAS 123R, the Company accounted for employee stock options using the intrinsic value method in accordance with APB 25. Accordingly, no compensation expense was recognized for stock options issued to employees as long as the exercise price was greater than or equal to the market value of the common stock at the date of grant. In accordance with SFAS 123, the Company disclosed the summary of pro forma effects to reported net loss as if the Company had elected to recognize compensation costs based on the fair value of the awards at the grant date.

For the six months ended June 30, 2006, the Company charged compensation costs of $670,852 against income for options granted under the plan. The adoption of SFAS 123R did not have an impact on cash flows from operating or financing activities. A deduction is not allowed for income tax purposes until the options are exercised. The amount of this deduction will be the difference between the fair value of the Company's common stock and the exercise price at the date of exercise. Accordingly, there is a deferred tax asset recorded for the tax effect of the financial statement expense recorded. The tax effect of the income tax deduction in excess of the financial statement expense will be recorded as an increase to additional paid-in capital.

INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

Management has valued the options at their date of grant utilizing the Black Scholes Option Pricing Model. The following weighted-average assumptions were utilized in the fair value calculations for stock options at per unit exercise price of $0.55 ("$0.55 Stock Options") granted during the quarter ended March 31, 2006 and for stock options at per unit exercise price of $1.00 ("$1.00 Stock Options") granted during the quarter ended June 30, 2006:

	$0.55 Stock Options	$1.00 Stock Options
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	41.55%	45.04%
Risk-free interest rate	4.32%	4.35%
Expected life of options	0 years	0 years

The following table summarizes the status of the Company's aggregate stock options granted under the $0.55 stock options plan:

	Number of Shares Subject to Options	Weighted Average Exercise Price
Outstanding as of December 31, 2005		$ 0.00
Granted to employees—Three-month period ended March 31, 2006	2,309,752	0.55
Granted to employees—Three-month period ended June 30, 2006	0	0
Vested during the six months ended June 30, 2006	1,333,373	0.55
Forfeited & cancelled for six-month period ended June 30, 2006	110,484	0.55
Un-vested at six-month period ended June 30, 2006	865,895	$ 0.55
Outstanding & Exercisable as of June 30, 2006	0	0

The weighted-average fair value of $0.55 options granted to employees was $0.44.

The following table summarizes the status of the Company's aggregate stock options granted under the $1 stock options plan:

	Number of Shares Subject to Options	Weighted Average Exercise Price
Outstanding as of December 31, 2005		$ 0.00
Granted to employees—Three-month period ended June 30, 2006	867,173	1.00
Vested for the six months ended June 30, 2006	216,795	
Forfeited & cancelled for six-month period ended June 30, 2006	56,250	1.00
Un-vested at six-month period ended June 30, 2006	594,128	$ 1.00
Outstanding & Exercisable as of June 30, 2006	0	0

The weighted-average fair value of $1.00 options granted to employees was $0.38.

Stock options granted on January 9, 2006 (the "$.55 Options"), which were 25% vested prior to the merger of Inductis, Inc. with ExlService Merger Sub, Inc. (the "Merger"), provided that the balance of any unvested $.55 Options would accelerate and become fully vested upon a "change in control" (i.e., the Merger). Stock options

INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

granted on May 21, 2006 (the "$1.00 Options"), none of which were vested prior to the Merger, did not contain an acceleration provision and, as a result, none of the $1.00 Options would have accelerated upon a "change of control." In connection with the Merger, a compromise was reached with the holders of $.55 and $1.00 stock options pursuant to which it was agreed that, in lieu of accelerated vesting of all of the $.55 Options held by such persons, only 50% of the $.55 Options became fully vested immediately prior to the Merger and, in lieu of termination of all of the $1.00 Options held by such persons, 25% of the $1.00 Options became fully vested immediately prior to the Merger. Those $.55 Options and $1.00 Options that did not vest prior to the Merger converted into the right to receive restricted shares of Series B Common Stock of ExlService Holdings, Inc., the parent of ExlService Merger Sub, Inc., the right to participate in a newly-created Management Incentive Plan and a cash payment payable at the closing of the Merger.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of $1,440,617 of which $182,725 and $27,516 is in India and Singapore, respectively, as of June 30, 2006 and $1,677,670 of which $694,410 is in India as of December 31, 2005.

7. OTHER CURRENT ASSETS

Other current assets comprise the following:

	June 30, 2006 (Unaudited)	December 31, 2005 (Audited)
Prepaid expenses	$ 4,001	$ 29,980
Prepaid Taxes	241,747	102,247
Deposits	60,940	44,582
Others	363,463	140,603
	$ 670,151	$ 317,412

8. PROPERTY AND EQUIPMENT

Property and equipment comprise the following:

	June 30, 2006 (Unaudited)	December 31, 2005 (Audited)
Computer and networking equipment	$1,641,601	$ 1,240,209
Software	302,840	297,545
Office furniture and equipment	1,026,629	962,149
Capital work-in-progress	—	4,673
	$2,971,070	$ 2,504,576
Accumulated depreciation and amortization	1,422,173	1,092,642
Property and equipment, net	**$1,548,897**	**$ 1,411,934**

The cost and accumulated amortization of assets under capital leases at June 30, 2006 is $392,487 and $207,141 respectively, and at December 31, 2005 are $392,487 and $141,726, respectively. Deletions of Fixed Assets for the period ended June 30, 2006 and December 31, 2005 are $94 and $30,413, respectively, of which accumulated depreciation was $40 and $26,633, respectively.

INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

9. INVESTMENTS

Investment securities, available for sale consist of investment in units of mutual funds and the book value approximates the fair value of such units.

Proceeds from the sale of securities, available were $603,124 and $401,967 during the six months ended June 30, 2006 and 2005 respectively. Dividend income earned from these investments during the six months ended June 30, 2006 and 2005 was $2,042 and $1,702 respectively.

10. OTHER ASSETS

Impairment Charge

The Company has entered into an Asset Purchase agreement with iTouchpoint Technologies LLC, a Delaware limited liability company, whereby the Company through its newly formed wholly owned subsidiary, iTouchpoint Services LLC, will acquire certain assets and liabilities relating to the business of iTouchpoint Technologies LLC. The transaction is subject to iTouchpoint Technologies LLC., acquiring 100% of iTouchpoint Softech Pvt. Limited.

During the year ended December 31, 2005, the Company was in the process of acquiring an equity interest in iTouchpoint Technologies LLC (“iTouchpoint”). As part of this process, the Company entered into a long-term bridge loan with iTouchpoint under which it promised to loan iTouchPoint up to $3,000,000 to assist with the funding of the business operations. After the extension of the long-term bridge loan, the principal owner of iTouchpoint also became a member of the Company’s Board of Directors. During the year ended December 31, 2005, the Company advanced $2,756,500 and during the six months ended June 30, 2006, the Company advanced $325,000 under this long-term bridge loan agreement to iTouchpoint pursuant to its funding commitment. The loan is senior to all existing indebtedness of the Company and is secured by all assets of the Company and can be called at any time in the event of default or after the expiration of the acquisition agreement with iTouchpoint.

The acquisition agreement expired on June 1, 2006 and the Company has not renewed the agreement and the note receivable from iTouchpoint will be distributed as a dividend net off the impairments to its shareholders as part of the acquisition with ExlServices.com, Inc transaction.

Subsequently, iTouchpoint has not met the sales levels the Company originally anticipated at the time of the loan was made.

Due to the significance of the continued operating losses, management performed an evaluation of the recoverability of the entire loan from iTouchPoint as described in Statement of Financial Accounting Standards No. 144 “*Account for the Impairment or Disposal of Long Lived Assets*.” Management concluded from the results of this evaluation that a significant impairment charge was required because estimated fair value was less than the carrying value of the asset. Considerable management judgment is necessary to estimate fair value. Accordingly, actual results could vary significantly from managements’ estimates.

Based upon the evaluation, the Company recognized an asset impairment loss as follows:

	2006	2005
Six months ended June 30,	$ 325,000	$ 150,000

INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

11. ALLOWANCES FOR ACCOUNTS RECEIVABLE

The Company maintains an allowance for uncollectible receivables based on the trade receivables at the end of the year. Factors utilized by management in determining the adequacy of the allowance include the present and prospective financial condition of the debtor and the aging of the trade receivables.

Allowance for accounts receivable as of June 30, 2006 and December 31, 2005 was $470,000 and $150,000, respectively.

12 (a) CAPITAL LEASES

Future minimum lease payments under such capital lease as of June 30, 2006 are as follows:

For the Year ending June 30, 2007	$ 138,046
For the period ending November 30, 2007	57,482
Total minimum payments	195,528
Less: Amount representing future interest	5,069
Present value of minimum payments	190,459
Less: Current portion	133,482
Long term capital lease obligation	**$ 56,977**

The Company decided to close both the operating and capital lease in June 2006 and made an initial payment of $180,000, shown in other current assets towards closure. See Note 23(b) for further details.

12 (b) OPERATING LEASES

The Company is obliged under non-cancelable operating leases for its offices in New Jersey, New York and India expiring in April 2008, September 2007 and July 2008 respectively. Future minimum lease payments as of June 30, 2006 for such non-cancelable operating leases are as follows:

Year ending June 30,	
2007	$ 472,137
2008 & beyond	$ 351,466
Total minimum payments	**$ 823,603**

The Company is also obligated to pay certain real estate taxes and other expenses under the lease term. The New York office lease is personally guaranteed by the principal owner of the Company.

Additionally, the Company leases guest house facilities under cancelable operating lease agreements that are renewable on a periodic basis at the option of both the lessor and the lessee.

Rental expense under operating leases is $308,007 and $239,894 for the six months ended June 30, 2006 and 2005, respectively.

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INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

13. (a) SHORT TERM DEBTS

The Company has line of credit facilities from its bank aggregating $3,500,000 for financing its fund based working capital requirements. These facilities bear interest at the bank's prime rate. Borrowing under the agreement is collateralized by substantially all the Company's assets and personal guarantee from the Managing Principal. Further, the company has a ten percent (10%) interest bearing promissory note payable to ex-members.

Short-term debt comprises of:

	June 30, 2006 (Unaudited)	December 31, 2005 (Audited)
Short term loan	$2,500,000	$ 3,500,000
Current portion of the long term debt	650,000	400,000
Promissory note payable	51,713	185,084
Total	**$3,201,713**	**$ 4,085,084**

The promissory note of $51,713 at June 30, 2006 and $49,289 at December 31, 2005 is payable to an ex-employee of the former holding company. The Company is contemplating litigation with the ex-employee, as the Company alleges that the ex-employee is in breech of some of the terms of the Repurchase Agreement with the Company. Currently the Company has notified the ex-employee that he has forfeited his rights to the balance due of $51,713.

13. (b) LONG TERM DEBTS

In 2005, the Company obtained a term loan of $1,800,000 to finance the working capital relating to purchase of assets of iTouchpoint Technologies LLC. The term loan bears an interest rate based on the prime rate less 25 basis points and is collateralized by substantially all the Company's assets and the personal guarantees of the Managing Principal and principal owner of iTouchpoint Technologies LLC.

Long-term debt comprises of:

	June 30, 2006	December 31, 2005
Secured Long term debt	$1,750,000	$ 1,800,000
Less: current portion of long term debt	650,000	400,000
Total	**$1,100,000**	**$ 1,400,000**

The maturity profile of term loan as of June 30 is as follows:

2007	$ 650,000
2008	600,000
2009	500,000
Total	**$ 1,750,000**

14. COMMON STOCK

The Company has two classes of Common Stock; Class C-1 Common Stock and Class C-2 Common Stock. Par value of each Common Stock as of June 30, 2006 is $0.0001.

INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

Each outstanding vested Class C-1 and Class C-2 membership unit of the former holding company has been exchanged for one share of Class C-1 Common Stock and Class C-2 Common Stock of the Company, respectively. Each outstanding unvested Class C-1 and Class C-2 units of the former holding company has been exchanged for Class C-1 Common Stock and Class C-2 Common Stock of the Company respectively, referred to as Restricted Shares, which shall be subject to forfeiture and repurchase by the Company as per the Stockholders' Agreement dated December 31, 2005.

The detail of Common Stock of the Company for the year ended December 31, 2005 is as below:

	Class C-1 Stock	Class C-2 Stock	Total
Unrestricted Shares	6,557,062	478,806	7,035,868
Restricted Shares	2,380,173	353,977	2,734,150
Total	8,937,235	832,783	9,770,018
Treasury Stock	822,500		822,500
Total Stock			10,592,518

Each holder of Class C-1 Common Stock in entitled to one vote per share.

The detail of Common Stock of the Company for the period ended June 30, 2006 is as below:

	Class C-1 Unit	Class C-2 Unit	Total
Unrestricted Shares	7,685,876	1,077,417	8,763,293
Restricted Shares	1,870,832	375,051	2,245,883
Total	9,556,708	1,452,468	11,009,176
Treasury Stock	1,127,839	128,965	1,256,804
Total Stock			12,265,980

Class C-1 unit holders had the voting capital interest in the affairs of the Company, whereas Class C-2 unit holders represent non-voting capital interest. The unit holders were entitled to interest at the rate of 10% on capital contribution. The former holding company has charged interest of $0 and $141,399 on capital contributions for the six months ended June 30, 2006 and 2005, respectively, which has been recorded in net other expenses.

On June 22, 2006, the Company awarded 123,294 shares of Class C-2 Common Stock to various individuals, 73,123 shares of which were restricted, and 50,171 shares of which were unrestricted. The Company's Board of Directors, after considering such facts as it deemed reasonably necessary, determined that the fair market value of a share of the Company's Class C-2 Common Stock was $1.46.

15. OTHER EXPENSE, NET

Interest and other income comprise the following:

	Six Months Ended June 30,	
	2006	2005
Interest & dividend income	$ (7,538)	$ (5,190)
Foreign exchange loss, (gain), net	(27,120)	6,471
Miscellaneous income	(76,792)	(15,800)
Interest and other finance costs	170,017	181,995
Other expenses / (Income), net	**$ 58,567**	**$167,476**

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INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

16. INCOME TAXES

The individual entities within the Group Company file individual tax returns as per regulations existing in their respective countries of domicile.

Income tax expense attributable to income from continuing operations for the six months ended June 30, 2006 and 2005 consists of:

	2006	2005
Current—		
U.S Taxes	586,990	14,698
Others	34,361	94
Total	**$ 621,351**	**$ 14,792**
Deferred—		
U.S Taxes	(829,688)	$(351,759)
Others	—	—
Total	**$(829,688)**	**$(351,759)**
Total taxes	$(208,337)	$(336,967)

A reconciliation of the income tax expense to the amount computed by applying the statutory income tax rate to income tax expense for the three months ended June 30, 2006 and 2005 is:

	2006	2005
Net Loss before taxes	$(775,074)	$(334,838)
Add: foreign subsidiary (India) net income before taxes	$ 28,075	$(457,319)
Adjusted book income	(746,999)	(792,157)
Enacted Tax rate	34%	34%
Computed tax expense	$(253,980)	$(269,333)
Foreign earnings permanently reinvested	21,269	$ (53,854)
Foreign Taxes	22,679	—
State Income Taxes, net of federal tax benefit	(37,841)	$ (82,210)
Others	39,536	68,430
Income tax benefit recognized in the statements of income	(208,337)	(336,967)

The components of the deferred tax balances as of June 30, 2006 and 2005 are as follows:

	2006
Deferred tax assets:	
Accrued employee costs	$ 153,321
Net operating losses	
Stock option expenses	$ 293,787
Allowance for impairment of Loan receivable	$ 1,611,837
Others	20,086
Total deferred tax assets	$ 2,079,031
Deferred tax liabilities:	
Excess of accrual basis over cash basis taxable income	$ 850,463
Others temporary difference	19,163
Total deferred tax liabilities	$ 869,626

INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

As at December 31, 2004, the Company had a U.S. State Net Operating loss carried forward of approximately $1,954,700 which gets fully utilized as of December 31, 2005. The company has state and local Net Operating Loss carry forwards that were suspended due to state and local restrictions.

Under APB 23, a provision for tax has not been provided at June 30, 2006, for the U.S operations or additional foreign withholding taxes on the undistributed earnings of the foreign subsidiary because it is the present intention of management to reinvest the undistributed earnings indefinitely in foreign operations. Generally, such earnings become subject to U.S. Tax upon the remittance of dividend and under certain other circumstances, such as disposition of foreign subsidiary operations. Undistributed earnings of foreign subsidiary were $1,137,985 and $1,409,946 as of June 30, 2006 and 2005, respectively.

A substantial portion of the profits of the Company's India operations is exempt from income tax being profits attributable to export operations of undertaking situated in Software Technology Parks (STP). Under the tax holiday, the taxpayer can utilize an exemption from income tax for a period of any ten consecutive years beginning from the financial year when the unit started operations. The tax holiday under such STP expires in 2009. Deferred Tax in respect of timing differences which originate and reverse during the tax holiday period are not recognized.

17. EMPLOYEE BENEFIT PLANS

US Operations

The Company has a 401K plan which all employees are eligible to participate in upon joining. Employees may make voluntary contributions during the year up to the maximum contributions allowable by law. The Company also has a profit sharing plan which all employees who have a minimum of six month employment and is employed on year end with the Company are eligible to participate in the profit sharing for that year. All employees receive contributions through the profit sharing plan based on their level in the company, with junior members receiving the smallest amounts, approximately 3%, and senior members receiving the most approximately 8%, up to legally allowable levels.

Total contributions made to the plan by the Company for six months ended June 30, 2006 and 2005 is $0 and $0 respectively.

India Operations

The Company has employee benefit plans in the form of certain statutory and welfare schemes covering substantially all of its employees.

Gratuity

In accordance with Indian law, the Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering all employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment at an amount based on the respective employee's salary and the years of employment with the Company (minimum of 5 years of continuous employment is required). Such liability actuarially valued at June 30, 2006 is $18,051 and $13,100 at December 31, 2005 and has not been funded.

Provident fund

In accordance with Indian law, all employees receive benefits from a provident fund, which is a defined contribution retirement plan. Under this plan, the employer and employee make monthly contributions to a fund managed by the government authorities. The employees contribute 12% of their base compensation, which is matched by an equal contribution by the employer.

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INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

Total contributions made by the Company in respect of this plan for the six months ended June 30, 2006 and 2005 are $ 5,982 and $ 1,184, respectively.

18. SEGMENT INFORMATION

In the opinion of the management the Company operates in a single business segment of providing management consulting and business data analytics services in the field of finance, strategic marketing, re-engineering and data analysis for various clients in the United States of America. The company operates in single geographical segment hence there are no separable segments as mentioned in SFAS 131, accordingly no disclosures have been included in the financial statements for the period ended June 30, 2006.

19. RELATED PARTY TRANSACTION

The Company has entered into transactions with the following related parties:

a) iTouchpoint Technologies LLC , in which a director of the Company has a significant ownership interest, controlling interest or over which he exercises significant influence.

During the six months ended June 30, 2006 the Company advanced $325,000 to iTouchpoint Technologies, LLC, whose principal owner is a member of the Company's Board of Directors. The Company's management performed an evaluation of the recoverability of the entire loan and concluded from the results of this evaluation that a significant impairment charge was required because estimated fair value was less than the carrying value of the asset.

Based upon the evaluation, the Company recognized an asset impairment loss of $325,000 and $150,000 during the six months ended June 30, 2006 and 2005, respectively (see Note 10)

b) Employee advances were:

	As of June 30, 2006	As of December 31, 2005
Employee advances	$ 159,112	$ 49,146
Due from Employees in cash & stock	791,952	0
Total	**$ 951,064**	**$ 49,146**

20. EARNINGS PER SHARE

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

	As of June 30, 2006	As of June 30, 2005
Net income/ (loss) available to Common stockholders	$ (566,738)	$ 2,129
Basic and diluted earnings (loss) per share	$ (.05)	$ (.00)
Weighted average common shares outstanding	**12,265,980**	**10,302,436**

Net earning per share is based upon the weighted average of shares of common stock outstanding. On December 31, 2005, the Company entered into an Agreement and Plan of Merger. Accordingly, all historical weighted average share and per share amounts have been restated to reflect the recapitalization of the Company as if the exchange of equity interests occurred on January 1, 2005.

INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

21. CONTINGENCIES AND COMMITMENTS

a) Capital commitments

As of June 30, 2006 and 2005, the Company had no capital commitments.

b) Other commitments

The Company's operations in India are in Software Technology Park (STP) under the STP guidelines issued by the Government of India. These units are exempted from customs and central excise duties and levies on imported and indigenous capital goods. The Company has executed legal undertakings to pay customs duty, central excise duty, levies and liquidated damages payable, if any, in respect of imported and indigenous capital goods and stores and spares consumed duty free, in the event that certain terms and conditions are not fulfilled.

c) Guarantees

The company has provided guarantees to the regulatory authorities as security for compliance with local regulations. The aggregate amount of such guarantees as of June 30, 2006 is $6,862.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of the Company's current assets and current liabilities approximate their carrying values because of their short-term maturity. Such financial instruments are classified as current and are expected to be liquidated within the next twelve months. The fair value of the variable rate long term debt approximates its carrying value.

23. SUBSEQUENT EVENTS

a) Merger with ExlService Merger Sub, Inc.

On July 1, 2006, the Company merged (the "Merger") with ExlService Merger Sub, Inc., a wholly owned subsidiary of ExlService Holdings, Inc., a Delaware corporation ("Exl"), with Exl being the corporation that survived the Merger. In connection with the Merger, holders of Company's voting and non-voting common stock (collectively the "Common Stock"), initially received in the aggregate a combination of approximately $2.4 million in cash, approximately 535,918 shares of Series A voting common stock of Exl ("Exl Series A Common Stock") (subject to certain adjustments as described below), $0.4 million bonus payable in January 2007. The merger has an additional clause where by the Company will also receive additional working capital adjustment and a contingent right to receive additional cash and Exl Series A Common Stock based upon the Company's achievement on certain agreed upon financial performance goals. Unvested options to purchase Company's Common Stock were cancelled, and upon such cancellation, the holders of the unvested received (i) restricted shares of Series B non-voting common stock of Exl ("Exl Series B Common Stock") which will become vested and non-forfeitable based on the holder's continued service with Exl, (ii) the right to receive an initial cash payment in an aggregate amount of approximately $180,000, and (iii) the right to participate in a management incentive plan providing each participant with (A) a contingent right to receive additional cash based on the Company's achievement of certain financial performance milestones during 2007 and (B) additional restricted shares of Exl Series B Common Stock which will become vested and non-forfeitable based upon both (x) such holder's continued service with Exl *and* (y) the Company's achievement on certain agreed upon financial performance goals.

INDUCTIS INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2006 and 2005

(US Dollars, except share data and as stated otherwise)

The maximum number of shares to be received from Exl in the earn out payment is 389,906 shares of Exl Series A common stock and the value of the contingent payment in a mix of cash and additional shares of Exl, the mix of which cannot be determined until the size of the contingent payment, if any, is determined, is expected to be in the range of $0.6 million to $6.5 million

b) Closure of operating and capital lease

For the period ended June 30, 2006 the Company decided to terminate both its operating and capital lease agreement with CitiCapital Technology Finance Inc., ("Lessor") which were scheduled to expire on November 2006 and December 2007 respectively. The company paid $180,000, disclosed as other current asset as an initial payment (*see Note 12(a)*). The final payment has been made subsequently in August 2006 towards the full and final settlement per the Lessor's final settlement advice. The termination is pending the receipt of the release documents from the Lessor.

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Accountability will be core to each of our jobs

Innovation will be actively pursued

Excellence will govern all our actions

Urgency will underline our actions in accomplishing business success

Integrity will guide every action we take

Respect for customers, colleagues and others will mark our behavior

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350 Park Avenue, 10th Floor, New York, NY 10022, T: +1 212 277-7100

United Kingdom
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Tower-I, Wing A & B, Cybercity Magarpatta City, Hadapsar, Pune 411028, T: +91 (20) 2682-4949

Shares

ExlService Holdings, Inc.

Common Stock

Citigroup **Goldman, Sachs & Co.**

Merrill Lynch & Co. **Thomas Weisel Partners LLC**

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following sets forth the estimated expenses and costs (other than underwriting discounts and commissions) expected to be incurred in connection with the issuance and distribution of the common stock registered hereby:

SEC registration fee	$ 6,420
NASD fee	8,000
Nasdaq Global Market listing fee	150,000
Printing expenses	*
Accounting fees and expenses	*
Legal fees and expenses	*
Blue Sky fees and expenses	5,000
Transfer agent fees and expenses	40,000
Miscellaneous	*
Total	$ *

* To be provided by amendment.

Item 14. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law, or the DGCL, provides, among other things, that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the corporation's request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with the action, suit or proceeding. The power to indemnify applies (i) if such person is successful on the merits or otherwise in defense of any action, suit or proceeding or (ii) if such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The power to indemnify applies to actions brought by or in the right of the corporation as well, but only to the extent of defense expenses (including attorneys' fees but excluding amounts paid in settlement), actually and reasonably incurred and not to any satisfaction of judgment or settlement of the claim itself, and with the further limitation that in such actions no indemnification shall be made in the event of any adjudication of negligence or misconduct in the performance of his duties to the corporation, unless a court believes that in light of all the circumstances indemnification should apply.

Our amended and restated certificate of incorporation will provide that we shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, which we refer to as a proceeding, by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was at any time from and after the effective date of our plan of reorganization, a director or officer of the corporation or, while a director or officer of the corporation, is or was at any time from and after the effective date of our plan of reorganization, serving at the written request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by such person; *provided*, *however*, that we shall be required to indemnify a person in connection with a proceeding (or part thereof) initiated by such person only if the commencement of such proceeding (or part thereof) was authorized by our board of directors.

Section 102 of the DGCL permits the limitation of directors' personal liability to the corporation or its stockholders for monetary damages for breach of fiduciary duties as a director except for (i) any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law, (iii) breaches under section 174 of the DGCL, which relates to unlawful payments of dividends or unlawful stock repurchase or redemptions, and (iv) any transaction from which the director derived an improper personal benefit.

Our amended and restated certificate of incorporation will limit the personal liability of our directors to the fullest extent permitted by section 102 of the DGCL.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

We maintain directors' and officers' liability insurance for our officers and directors.

Our Underwriting Agreement for this offering will provide that each underwriter severally agrees to indemnify and hold harmless ExlService Holdings, Inc., each of our directors, each of our officers who signs the registration statement, and each person who controls ExlService Holdings, Inc. within the meaning of the Securities Act but only with respect to written information relating to such underwriter furnished to ExlService Holdings, Inc. by or on behalf of such underwriter specifically for inclusion in the documents referred to in the foregoing indemnity.

Item 15. Recent Sales of Unregistered Securities.

(a) On June 25, 2003, we issued and sold an aggregate of 444,538 shares of Series B common stock and 2,524 shares of Series A preferred stock at a purchase price of $0.23 per share of Series B common stock and $100.00 per share of Series A preferred stock or an aggregate purchase price of $354,653.70 to certain employees pursuant to incentive agreements with such employees. These transactions were effected without registration under the Securities Act in reliance on the exemption from registration provided under Section 4(2) or Regulation S promulgated thereunder.

(b) In December, 2003, we issued and sold 20,000 shares of Series B common stock to an employee based in India pursuant to an incentive agreement with said employee at a purchase price of $5.00 per share or an aggregate purchase price of $100,000. This transaction was effected without registration under the Securities Act in reliance on the exemption from registration provided under Regulation S promulgated thereunder.

(c) On July 1, 2004, we granted options to purchase an aggregate of 115,100 shares of Series A common stock to Prudential Financial Inc., at an exercise price of $12.50 per share. This transaction was effected without registration under the Securities Act in reliance on the exemption from registration provided under Section 4(2) thereof.

(d) On July 22, 2004, we issued and sold an aggregate of 526,316 shares of Series A common stock to NUI Investments Limited, at a purchase price of $23.75 per share or an aggregate purchase price of $12,500,000.00. This transaction was effected without registration under the Securities Act in reliance on the exemption from registration provided under Section 4(2) thereof.

(e) On April 20, 2006, we granted 5,000 restricted shares of our Series B common stock under our 2006 Plan. This transaction was effected without registration under the Securities Act in reliance on the exemption from registration provided under Rule 701 thereunder.

(f) On July 1, 2006, we issued an aggregate of 535,918 shares of Series A common stock and granted 85,461 restricted shares of Series B common stock to the former holders of Inductis common stock, restricted common stock and unvested options in consideration for the Inductis Acquisition. The issuance of the shares of Series A common stock was effected without registration under the Securities Act in reliance on the exemption from registration provided under Section 4(2), Regulation D and Regulation S promulgated thereunder. The grants of the shares of Series B common stock were effected without registration under the Securities Act in reliance on the exemption from registration provided under Rule 701 and Regulation S thereunder.

(g) On July 27, 2006, our compensation committee approved a grant of 54,606 restricted shares of our Series B common stock under our 2006 Plan. This transaction was effected without registration under the Securities Act in reliance on the exemption from registration provided under Rule 701 thereunder.

(h) We issued options to purchase a total of 404,600 shares of Series B common stock in 2003, 257,100 shares of Series B common stock in 2004, 277,750 shares of Series B common stock in 2005 and 473,000 shares of Series B common stock in 2006 to date to employees, executive officers, members of our advisory board and directors of EXL India and ExlService Holdings under our 2003 Plan, our 2003 India Plan and our 2006 Plan, as described below. All of these issuances were effected without registration under the Securities Act in reliance on the exemption from registration provided pursuant to Rule 701, Regulation S or Section 4(2) of the Securities Act.

The table below sets forth our option issuances within the past three years.

Date of Grant	Number of options	Exercise price(1)
2003		
September 11	5,000	$ 0.23
December 9	10,000	$ 0.24
December 9	26,000	$ 0.23
2004		
February 5	42,000	$ 7.50
April 13	34,100	$ 10.00
June 7	30,000	$ 21.25(2)
June 18	51,500	$ 18.00
October 25	86,500	$ 23.75
December 18	13,000	$ 23.75
2005		
February 15	25,000	$ 23.75
March 15	22,250	$ 23.75
April 27	20,500	$ 23.75
May 31	5,000	$ 23.75
June 1	140,000	$ 23.75

Date of Grant	Number of options	Exercise price(1)
June 24	15,000	$ 23.75
September 29	32,000	$ 23.75
October 31	3,000	$ 23.75
November 8	15,000	$ 23.75
2006		
April 20	89,775	$ 23.75
July 6	15,000	$ 23.75
July 27	368,225	$ 23.75

(1) In 2003, the options to purchase shares under the 2003 India Plan were granted at an exercise price of $0.23 per share, while the options to purchase shares under the 2003 Plan were granted at $0.24 per share.

(2) These options were originally granted at an exercise price of $10.00 per share. On July 27, 2006, our compensation committee approved an increase in the exercise price of these options to $21.25 per share.

No options were exercised in 2003. Options to purchase 64,831 shares were exercised in 2004. Options to purchase 54,110 shares were exercised in 2005. Options to purchase 33,761 shares were exercised to date in 2006.

Item 16. Exhibits and Financial Statement Schedules.

Exhibit Number	Description
1.1†	Form of Underwriting Agreement.
1.2†	Form of Side Letter Agreement regarding the Reserved Share Program.
2.1**	Agreement and Plan of Merger amongst ExlService Holdings, Inc., ExlService Merger Sub Inc., Inductis, Inc., Sandeep Tyagi and certain major stockholders of Inductis, dated June 30, 2006.
3.1†	Form of Amended and Restated Certificate of Incorporation of the Registrant.
3.2†	Form of Amended and Restated By-laws of the Registrant.
4.1†	Specimen Stock Certificate.
4.2†	Form of Registration Rights Agreement to be entered into by and among ExlService Holdings, Inc. and the stockholders named therein.
5.1†	Opinion of Paul, Weiss, Rifkind, Wharton & Garrison LLP as to legality of the common stock.
10.1*	Umbrella Agreement, dated as of August 26, 2004, by and among Norwich Union Customer Services (Singapore) Private Limited, ExlService Holdings, Inc., ExlService.com (India) Private Limited and Noida Customer Operations Private Limited.
10.2*	Insurance Services Framework Agreement, dated as of July 29, 2004, by and between Norwich Union Customer Services (Singapore) Private Limited and ExlService Holdings, Inc.
10.3*	Insurance Services Framework Agreement (ISFA), dated as of August 26, 2004, by and between Norwich Union Customer Services (Singapore) Private Limited and ExlService Holdings, Inc.
10.4*	Data Protection Agreement, dated as of July 29, 2004 by and among Norwich Union Customer Services (Singapore) Private Limited, Norwich Union Insurance Limited, ExlService Holdings, Inc. and ExlService.com (India) Private Limited.
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10.6*	Virtual Shareholders' Agreement, dated as of August 26, 2004, by and among Norwich Union Customer Services (Singapore) Private Limited, ExlService Holdings, Inc., ExlService.com (India) Private Limited and Noida Customer Operations Private Limited.

Exhibit Number	Description
10.7*	Confidentiality Agreement, dated as of August 26, 2004, by and among Norwich Union Customer Services (Singapore) Private Limited, Norwich Union Insurance Limited, Norwich Union Life Services Limited, ExlService Holdings, Inc., ExlService.com (India) Private Limited and Noida Customer Operations Private Limited.
10.8*	Guarantee and Indemnity, dated as of August 26, 2004, by and between Norwich Union Insurance Limited and ExlService Holdings, Inc.
10.9*	Guarantee and Indemnity, dated as of August 26, 2004, by and between Norwich Union Life Holdings Limited and ExlService Holdings, Inc.
10.10*	Master Agreement, effective as of November 1, 2002, by and between ExlService Holdings, Inc. and Dell Products L.P.
10.11*	Stock and Note Purchase Agreement, dated December 13, 2002, by and among ExlService Holdings, Inc., Oak Hill Capital Partners, L.P., Oak Hill Capital Management Partners, L.P., Financial Technology Ventures (Q), L.P., Vikram Talwar and Rohit Kapoor.
10.12†	Employment Contract, as amended, effective June 1, 2005, by and between ExlService Inc. and Amit Shashank.
10.13**	Employment Contract, effective June 1, 2005, by and between ExlService Inc. and Katy Murray.
10.14†	Form of Employment and Non-Competition Agreement to be entered into by and among ExlService Holdings, Inc., ExlService.com, Inc., ExlService.com (India) Private Limited and Vikram Talwar.
10.15†	Form of Employment and Non-Competition Agreement to be entered into by and among ExlService Holdings, Inc., ExlService.com, Inc., ExlService.com (India) Private Limited and Rohit Kapoor.
10.16*	ExlService Holdings, Inc. 2003 India Stock Option Plan.
10.17†	Form of Stock Option Agreement under 2003 India Stock Option Plan.
10.18*	ExlService Holdings, Inc. 2003 Stock Option Plan.
10.19†	Form of Stock Option Agreement under 2003 Stock Option Plan.
10.20*	ExlService Holdings, Inc. 2006 Omnibus Plan.
10.21*	ExlService Holdings, Inc. 2006 Omnibus India Subplan 1.
10.22†	Form of Stock Option Agreement under 2006 Omnibus India Subplan 1.
10.23†	ExlService Holdings, Inc. Management Incentive Plan.
10.24*	Stock Purchase Agreement, by and between ExlService Holdings, Inc. and NUI Investments Limited, dated July 22, 2004.
10.25*	Stock Purchase Agreement, dated as of November 14, 2002, by and among Oak Hill Capital Partners, L.P., Financial Technology Venture (Q), L.P., Oak Hill Capital Management Partners, L.P., ExlService Holdings, Inc. and Conseco Inc.
10.26*	Supplemental Stockholders Agreement, dated as of December 3, 2004, by and among ExlService Holdings, Inc., TCV V, L.P. and TCV V Member Fund, L.P.
10.27*	Employment Contract, dated January 22, 2004, by and between ExlService.com, Inc. and Shiv Kumar.
10.28*	Restricted Stock Purchase Agreement, dated as of November 14, 2002, by and between ExlService Holdings, Inc. and Vikram Talwar.
10.29*	Restricted Stock Purchase Agreement, dated as of November 14, 2002, by and between ExlService Holdings, Inc. and Rohit Kapoor.
10.30**	Form of Company Holder Agreement dated June 30, 2006.
10.31†	Form of Restricted Stock Award Agreement under the 2006 Omnibus Plan.

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10.32†	Form of Stock Option Agreement under the 2006 Omnibus Plan.
10.33†	Form of Restricted Stock Award Agreement under the 2006 Omnibus India Subplan 1.
10.34†	Letter Agreement with the Company and an executive officer, dated July 27, 2006.
10.35†	Amended and Restated Nonqualified Stock Option Award Agreement between Amit Shashank and the Company.
10.36**	Agreement dated July 17, 2006 among Norwich Union Customer Services (Singapore) PTE Ltd., ExlService Holdings, Inc., ExlService.com (India) Private Limited and Noida Customer Operations Private Limited.
21.1**	Subsidiaries of the Registrant.
23.1**	Consent of Ernst & Young LLP.
23.2**	Consent of Russell Bedford Stefanou Mirchandani LLP.
23.3†	Consent of Paul, Weiss, Rifkind, Wharton & Garrison LLP (included in Exhibit 5.1 to this Registration Statement).
23.4*	Consent of Luthra & Luthra.
24.1*	Powers of Attorney (included on signature pages of this Part II).

** Filed herewith.
† To be filed by amendment.
* Previously filed.

Item 17. Undertakings.

(a) The undersigned registrant hereby undertakes:

(1) That, for purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant duly caused this Amendment No. 4 to registration statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on September 15, 2006.

EXLSERVICE HOLDINGS, INC.

By: /S/ VIKRAM TALWAR

Vikram Talwar
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 4 to registration statement on Form S-1 has been signed on September 15, 2006, by the following persons in the capacities indicated.

Signature	Title
* **Vikram Talwar**	Chief Executive Officer and Director (Principal Executive Officer)
* **Rohit Kapoor**	Chief Financial Officer, President and Director (Principal Financial and Accounting Officer)
* **Steven B. Gruber**	Chairman of the Board
* **Bradford E. Bernstein**	Director
* **Edward V. Dardani**	Director

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Signature	Title
* James C. Hale, III	Director
* David B. Kelso	Director
* Dr. Mohanbir Sawhney	Director
* Garen K. Staglin	Director

* By: /S/ VIKRAM TALWAR Attorney-in-Fact

EXHIBIT INDEX

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21.1**	Subsidiaries of the Registrant.
23.1**	Consent of Ernst & Young LLP.

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Exhibit Number	Description
23.2**	Consent of Russell Bedford Stefanou Mirchandani LLP.
23.3†	Consent of Paul, Weiss, Rifkind, Wharton & Garrison LLP (included in Exhibit 5.1 to this Registration Statement).
23.4*	Consent of Luthra & Luthra.
24.1*	Powers of Attorney (included on signature pages of this Part II).

** Filed herewith.
† To be filed by amendment.
* Previously filed.

Exhibit 2.1

EXECUTION VERSION

AGREEMENT AND PLAN OF MERGER

amongst

EXLSERVICE HOLDINGS, INC.,

EXLSERVICE MERGER SUB INC.,

INDUCTIS, INC.,

SANDEEP TYAGI,
Individually and as Representative,

and

THE MAJOR STOCKHOLDERS PARTY HERETO

June 30, 2006

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Note: The Registrant has omitted the following schedules, exhibits and similar attachments to this agreement pursuant to Item 602(b)(2) of Regulation S-K and agrees to furnish supplementally a copy of any omitted schedule, exhibit or similar attachment to the Securities and Exchange Commission upon request:

Section 2.1 of the Company Disclosure Letter
Section 2.2 of the Company Disclosure Letter
Section 2.4 of the Company Disclosure Letter
Section 2.8 of the Company Disclosure Letter
Section 3.1 of the Company Disclosure Letter
Section 3.3 of the Company Disclosure Letter
Section 3.4 of the Company Disclosure Letter
Section 3.5 of the Company Disclosure Letter
Section 3.6 of the Company Disclosure Letter
Section 3.7 of the Company Disclosure Letter
Section 3.8 of the Company Disclosure Letter
Section 3.9 of the Company Disclosure Letter
Section 3.10 of the Company Disclosure Letter
Section 3.11 of the Company Disclosure Letter
Section 3.12 of the Company Disclosure Letter
Section 3.13 of the Company Disclosure Letter
Section 3.14 of the Company Disclosure Letter
Section 3.16 of the Company Disclosure Letter
Section 3.17 of the Company Disclosure Letter
Section 3.18 of the Company Disclosure Letter
Section 3.19 of the Company Disclosure Letter
Section 3.22 of the Company Disclosure Letter
Section 3.24 of the Company Disclosure Letter
Section 3.25 of the Company Disclosure Letter
Section 3.26 of the Company Disclosure Letter
Section 3.27 of the Company Disclosure Letter
Section 3.28 of the Company Disclosure Letter
Section 4.3 of the Parent Disclosure Letter
Section 4.10 of the Parent Disclosure Letter
Section 5.1 of the Company Disclosure Letter
Section 5.15 of the Company Disclosure Letter
Section 9.1 of the Company Disclosure Letter

Exhibit A	Stockholders Agreement
Exhibit B	Certificate of Merger
Exhibit C	Certificate of Incorporation of the Surviving Corporation
Exhibit D–1	Two-Year Stock Grant Agreement Form I
Exhibit D–2	Two-Year Stock Grant Agreement Form II
Exhibit D–3	Indian Two-Year Stock Grant Agreement Form I
Exhibit D–4	Indian Two-Year Stock Grant Agreement Form II
Exhibit E–1	Three-Year Stock Grant Agreement Form I
Exhibit E–2	Three-Year Stock Grant Agreement Form II
Exhibit E–3	Indian Three-Year Stock Grant Agreement Form I
Exhibit E–4	Indian Three-Year Stock Grant Agreement Form II
Exhibit F	Parent Management Incentive Plan
Exhibit G	Opinion of Counsel to the Company
Exhibit H	Opinion of Special Counsel to Certain of the Major Stockholders
Exhibit I	Opinion of Special Delaware Counsel to the Company
Exhibit J	Opinion of Special Indian Counsel to the Company
Exhibit K	Company Holder Agreement
Exhibit L	Opinion of Counsel to the Parent

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (this "Agreement"), dated as of June 30, 2006, among EXLSERVICE HOLDINGS, INC., a Delaware corporation ("Parent"). EXLSERVICE MERGER SUB, INC., a Delaware corporation ("Merger Sub"), INDUCTIS, INC., a Delaware corporation (the "Company"), the Representative (as defined below) and the individuals executing this Agreement as Major Stockholders (each, a "Major Stockholder").

RECITALS

WHEREAS, upon the terms and subject to the conditions set forth in this Agreement, the respective boards of directors of Parent, Merger Sub and the Company have approved the acquisition of the Company by Parent, by means of a merger of Merger Sub with and into the Company (the "Merger"), with the Company continuing as the surviving corporation and a wholly-owned subsidiary of Parent (as such, the "Surviving Corporation");

WHEREAS, the boards of directors of Parent, Merger Sub and the Company each have (i) determined that the Merger and the Merger Agreement are advisable and fair to, and in the best interests of, their respective stockholders and (ii) approved this Agreement and the transactions contemplated hereby;

WHEREAS, concurrently with the execution of this Agreement, as a condition to the willingness of the Parent to enter into this Agreement, each of the holders of Company Common Stock (as defined below) (collectively, with holders of Company Options (as defined below), the "Company Holders") shall be made a party as of the Effective Time (as defined below) to the Amended and Restated Stockholder's Agreement among the Parent and certain stockholders of the Parent, in the form attached hereto as Exhibit A (the "Stockholders Agreement"), providing for, among other things, the agreement of such stockholders to restrict the disposition and voting of Parent Common Stock (as defined below);

WHEREAS, concurrently with the execution of this Agreement, and as a condition and inducement to Parent's willingness to enter into this Agreement, Sandeep Tyagi. Kal Bittianda, Puneet Shivam, and Lalit Wangikar have entered into new Employment Agreements (the "Employment Agreements") and certain of the Company Holders have entered into a non-competition and non-solicitation agreement (the "Non-Compete Agreements") with the Company, the effectiveness of which are contingent upon the consummation of the Merger;

WHEREAS, for U.S. federal income tax purposes it is intended that the merger shall qualify as a reorganization under the provisions of section 368(a) of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), and the rules and regulations promulgated under the Code; and

WHEREAS, certain capitalized terms used in this Agreement and not otherwise defined have the meanings specified in Section 9.1.

NOW, THEREFORE, in consideration of the foregoing and the mutual representations, warranties, covenants and agreements herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I

THE MERGER

Section 1.1 The Merger. Upon the terms and subject to the conditions set forth in this Agreement, at the Effective Time, Merger Sub shall be merged with and into the Company in accordance with the terms of, and subject to the conditions set forth in, this Agreement and the Delaware General Corporation Law, as amended (the "DGCL"). Following the Merger, the Company shall continue as the surviving corporation (the "Surviving Corporation") and the separate corporate existence of Merger Sub shall cease.

Section 1.2 Effective Time. As soon as practicable following the satisfaction or, if permissible, waiver of the conditions set forth in Article VI, but not later than the close of business on the date of this Agreement (or such later time as the Company and the Parent shall agree in writing), the Company, Merger Sub and the Parent will cause a certificate of merger in the form annexed hereto as Exhibit B (the "Certificate of Merger"), together with any required related certificate, to be signed, acknowledged and delivered for filing with the Secretary of State of the State of Delaware in such form as provided in Section 251 of the DGCL. The Merger shall become effective at the time (the "Effective Time") when the Certificate of Merger has been duly filed with the Secretary of State of the State of Delaware.

Section 1.3 Closing. Subject to the satisfaction or waiver of all of the conditions to closing contained in Article VI hereof, the closing of the Merger (the "Closing") shall take place at the offices of Paul, Weiss, Rifkind, Wharton & Garrison LLP, 1285 Avenue of the Americas, New York, New York 10019, at 10:00 a.m. (Eastern Time) on the date of this Agreement (or such later time as the Company and the Parent shall agree in writing) (the "Closing Date").

Section 1.4 Effects of the Merger. At the Effective Time, the Merger shall have the effects set forth in Sections 251, 259 and 261 of the DGCL. Without limiting the generality of the foregoing and subject thereto, at the Effective Time, all the properties, rights, privileges, powers and franchises of the Company and Merger Sub shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and Merger Sub shall become the debts, liabilities and duties of the Surviving Corporation.

Section 1.5 Certificate of Incorporation. The amended and restated certificate of incorporation of the Company shall be amended in the Merger to read in its entirety as set forth on Exhibit C hereto and, as so amended, shall be the certificate of incorporation of the Surviving Corporation until duly amended as provided therein or by applicable law.

Section 1.6 By-Laws. Parent shall cause the by-laws of Merger Sub in effect immediately prior to the Effective Time to be, from and after the Effective Time, the by-laws of the Surviving Corporation until duly amended as provided therein or in accordance with applicable law.

Section 1.7 Directors of Surviving Corporation. Parent shall cause the directors of Merger Sub at the Effective Time to be, from and after the Effective Time, the initial directors of the Surviving Corporation to hold office in accordance with the certificate of incorporation and by-laws of the Surviving Corporation until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the certificate of incorporation and by-laws of the Surviving Corporation.

Section 1.8 Officers of Surviving Corporation. The officers of the Company at the Effective Time shall, from and after the Effective Time, be the initial officers of the Surviving Corporation to hold office in accordance with the certificate of incorporation and by-laws of the Surviving Corporation until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the certificate of incorporation and by-laws of the Surviving Corporation.

ARTICLE II

EFFECT OF THE MERGER ON CAPITAL STOCK; EXCHANGE OF SHARES

Section 2.1 Conversion of Capital Stock. At the Effective Time, by virtue of the Merger and without any action on the part of the holder of any capital stock of the Company:

(a) Capital Stock of Merger Sub. Each share of common stock of Merger Sub issued and outstanding immediately prior to the Effective Time shall, by virtue of the Merger and without any action on the part of the holders thereof, be converted into one validly issued, fully paid and nonassessable share of common stock, par value $0.01 per share, of the Surviving Corporation (the “Surviving Corporation Common Stock”).

(b) Cancellation of Treasury Stock. Any shares of the Class C-1 Common Stock (“Class C-1 Common Stock”), par value $0.0001 per share, of the Company and the Class C-2 Common Stock (“Class C-2 Common Stock”), par value $0.0001 per share, of the Company (collectively the “Company Common Stock”) that are held in the treasury of the Company immediately prior to the Effective Time shall be cancelled automatically and shall cease to exist, and no shares of Surviving Corporation Common Stock or other consideration shall be delivered in exchange therefor.

(c) Merger Consideration. For purposes of this Agreement, "Merger Consideration" means (i) cash in an aggregate amount equal to $2,219,475 (less $150,000 that is being deposited with the Representative in accordance with Section 9.6 to defray the Representative's expenses) (the "Aggregate Cash Consideration"), (ii) 535,217 (assuming tax withholding is not done in a cashless manner and subject to reduction to give effect to any such cashless withholding) shares of Series A Common Stock, par value $0,001 per share, of the Parent (the "Parent Common Stock") subject to adjustment as provided in Sections 2.5 and 2.11 and subject to the payment of cash in lieu of fractional shares of Parent Common Stock, if any, as provided in Section 2.9(f) (the "Aggregate Closing Share Consideration") and (iii) the contingent right to receive Earnout Payments and the Upside Payment in accordance with this Agreement. Each certificate (a "Certificate") formerly representing any shares of Company Common Stock (other than Dissenting Shares) shall from and after the Effective Time represent only the right to receive the Merger Consideration and any distribution or dividend under Section 2.9(c), in each case without interest and at the times and subject to the terms provided for herein.

(d) Payment of Merger Consideration. Each share of the Company Common Stock, issued and outstanding immediately prior to the Effective Time (other than Dissenting Shares but including shares issued upon exercise of vested Company Options in accordance with Section 2.2) shall be converted into the right to receive a portion of the Merger Consideration as follows:

(i) an amount of cash, without interest, equal to the quotient obtained by dividing (x) the Aggregate Cash Consideration by (y) the total number of shares of Company Common Stock issued and outstanding immediately prior to the Effective Time after giving effect to the exercise of the vested Company Options (the "Cash Consideration");

(ii) a number of validly issued, fully paid and non assessable shares of Parent Common Stock equal to the quotient obtained by dividing (x) the Aggregate Closing Share Consideration by (y) the total number of shares of Company Common Stock issued and outstanding immediately prior to the Effective Time after giving effect to the exercise of the vested Company Options (the "Share Consideration").

(iii) the Earnout Payments, if and when payable, payable solely in a number of Earnout Shares equal to the quotient obtained by dividing (x) the applicable Earnout Payment by (y) the total number of Shares of Company Common Stock issued and outstanding immediately prior to the Effective Time after giving effect to the exercise of the vested Company Options (the "Earnout Consideration"); and

(iv) the Upside Payment, if and when payable, payable (A) in cash, without interest, or (B) in a number of validly issued, fully paid and nonassessable shares of Parent Common Stock (or such securities, cash or property into which Parent Common Stock may have been exchanged by reason of a Capital Change (as defined below) valued at the Fair Market Value thereof as of the Upside Equity Valuation Date) equal to the quotient obtained by dividing (x) the Upside Payment by

(y) that total number of Shares of Company Common Stock issued and outstanding immediately prior to the Effective Time after giving effect to the exercise of the vested Company Options (such payment, the "Upside Payment Consideration"). If the Shares of Parent Common Stock to be included in the Upside Payment are freely tradable subject only to the volume limitations under Rule 144 promulgated under the Securities Act of 1933, as amended (the "Securities Act") at the time the Upside Payment is required to be made under this Agreement, then Parent shall have the right to determine the proportion of the Upside Payment that shall he paid in cash or in Parent Common Stock, provided that, (i) in no event shall the amount of the cash portion of the Upside Payment cause the aggregate cash portion of the Tax Merger Consideration to exceed 19.99% of the aggregate Tax Merger Consideration, and (ii) in no event shall the stock portion of the Upside Payment exceed 145,835 voting shares. If the Shares of Parent Common Stock to be included in the Upside Payment are not freely tradable subject only to the volume limitations under Rule 144, then the Upside Payment shall be paid in cash to the greatest extent possible taking into account the proviso to this sentence and thereafter the balance shall be payable in Parent Common Stock, provided that, (i) in no event shall the amount of the cash portion of the Upside Payment cause the aggregate cash portion of the Tax Merger Consideration to exceed 19.99% of the aggregate Tax Merger Consideration, and (ii) in no event shall the stock portion of the Upside Payment exceed 145,835 voting shares. For purposes of this Agreement, "Tax Merger Consideration" means the Merger Consideration that is exchanged by Parent solely for stock of the Surviving Corporation. For purposes of clarity, any portion of the Merger Consideration treated as interest under applicable provisions of the Code does not constitute Tax Merger Consideration. The provisions of this Section 2.1(d) that limit the portion of the Upside Payment that can be paid in cash are intended to ensure that, in the Merger, stockholders of the Surviving Corporation exchange, solely for voting stock of the Parent, an amount of stock of the Surviving Corporation that constitutes "control" of the Surviving Corporation for purposes of Section 368(a)(2)(E) of the Code and shall be interpreted consistently therewith. The provisions of this Section 2.1(d) that limit the portion of the Upside Payment that can be paid in stock are intended to comply with the requirements of Revenue Procedure 84-42 and shall be interpreted consistently therewith. The parties agree that solely for purposes of determining the value of the Tax Merger Consideration for purposes of making the determination of the form and amount of the Upside Payment, (i) shares of the Parent Common Stock issued as part of the Merger Consideration at the Effective Time or issued in connection with the Working Capital Adjustment set forth in Section 2.5 shall be valued at $17.40 per share and (ii) shares of Parent Common Stock issued as part of the Earnout Payment or the Upside Payment shall be valued at the fair market value thereof at the time of issuance.

(e) Section 2.1(e) of the Company Disclosure Letter sets forth the percentage participation of each Company Holder in the Merger Consideration after giving effect to the exercise of the vested Company Options (the "Allocation Schedule")). The Representative, Parent, and the Surviving Corporation shall be entitled to rely on such certificate in connection with the payment of any portion of the Merger Consideration or any adjustment required under this Agreement.

(f) Each Company Holder shall receive payments under Section 5.14 as, if and when entitled thereunder.

Section 2.2 Treatment of Management Equity.

(a) The Company has heretofore taken all necessary action to cause (i) the vesting of the $0.55 Options (as defined in Section 2.2(b) below) to be accelerated as of immediately prior to the Effective Time so that as of the Effective Time 50% of the $0.55 Options are vested and (ii) the vesting of options to purchase Company Common Stock at an exercise price of $1.00 per share (the "$1.00 Options," collectively with the $0.55 Options, the "Company Options") to be accelerated as of immediately prior to the Effective Time so that as of the Effective Time 25% of the $1.00 Options are vested.

(b) The Company and the Parent have heretofore taken all necessary action to cause each person holding a Company Option, whether or not currently exercisable, to execute an instrument, in the form heretofore agreed to by Parent and the Company, which shall provide for (as adjusted therein) (i) in the case of Company Options having a per-share exercise price of $0.25, an increase in such per-share exercise price to $0.55 (such options, the "$0.55 Options"), (ii) the cashless exercise of each vested Company Option effective immediately prior to the Effective Time, (iii) the surrender of the unvested Company Options in the aggregate immediately prior to the Effective Time in exchange for (A) a number of restricted shares of Series B Common Stock (as defined in Section 4.3 below) ("Replacement Restricted Stock") equal to (x) the sum of (I) $946,196 (share value reflecting surrendered ($0.55 Options), plus (II) $279,135 (share value reflecting surrendered $1.00 Options) plus (III) $81,747 (share value reflecting the unvested portion of the restricted stock) divided by (y) $23.75 and (B) any cash payment in the amount set forth on Section 2.2(b) of the Company Disclosure Letter, and (iv) the payment of a cash bonus on January 1, 2007 in the amount of $0.30 for each share of Company Common Stock subject to a vested $0.55 Option exercised pursuant to clause (ii) of this Section 2.2(b). The Replacement Restricted Stock to be issued hereunder shall be reflected in an award agreement substantially in the form attached hereto as Exhibit D-l, D-2, D-3 or D-4 ("Two-Year Stock Grant Agreement") or Exhibit E-l, E-2, E-3 or E-4 ("Three-Year Stock Grant Agreement"), as appropriate.

Section 2.3 Earnout Payments.

(a) The Company Holders shall be entitled to an Earnout Payment with respect to each Earnout Period, payable solely in Earnout Shares, on or before each Earnout Payment Date, if (and only if) the Company's Profit Adjusted Earnout Revenue for such Earnout Period (subject to Section 2.3(b) in the case of the First Earnout Period) is equal to or greater than the Minimum Earnout Revenue Target for such Earnout Period; such Earnout Payment to be calculated as follows:

(i) if Profit Adjusted Earnout Revenue in an Earnout Period is less than the Minimum Earnout Revenue Target for such Earnout Period, then the Company Holders shall not be entitled to an Earnout Payment with respect to such Earnout Period (subject to Section 2.3(b) in the case of the First Earnout Period).

(ii) if Profit Adjusted Earnout Revenue in an Earnout Period is equal to or greater than the Maximum Earnout Revenue Target for such Earnout Period, then the Company Holders shall be entitled to an Earnout Payment with respect to such Earnout Period equal to 100% of the Earnout Shares for such Earnout Period.

(iii) if Profit Adjusted Earnout Revenue in an Earnout Period is equal to or greater than the Minimum Earnout Revenue Target for such Earnout Period but less than the Maximum Earnout Revenue Target for such Earnout Period, then the Company Holders shall be entitled to an Earnout Payment with respect to such Earnout Period (subject to Section 2.3(b) in the case of the First Earnout Period) equal to the product of (x) the number of Earnout Shares for such Earnout Period multiplied by (y) the sum of (i) 0.33 and (ii) the product of 0.67 multiplied by a fraction, the numerator of which is the amount by which Profit Adjusted Earnout Revenue in such Earnout Period exceeds the Minimum Earnout Revenue Target for such Earnout Period and the denominator of which is the Earnout Spread for such Earnout Period.

(b) The Company Holders shall be entitled to a catch-up opportunity applicable to the Earnout Payment that the Company Holders may be entitled to receive for the First Earnout Period (if and only to the extent the full amount of Earnout Shares for the First Earnout period were not earned with respect to the First Earnout Period in accordance with Section 2.3(a)), which catch-up shall be calculated at the time of the calculation of the Earnout Payment for the Second Earnout Period as follows:

(i) if Profit Adjusted Earnout Revenue in the Second Earnout Period is less than or equal to $35,000,000, then the Company Holders shall receive no additional Earnout Payment for the First Earnout Period pursuant to this Section 2.3(b).

(ii) if Profit Adjusted Earnout Revenue in the Second Earnout Period is greater than $35,000,000 (such excess amount, the "Catch-up Amount"), then the Catch-up Amount shall be added to the Profit Adjusted Earnout Revenue for the First Earnout Period and the amount of the Earnout Payment for the First Earnout Period shall be recalculated in accordance with Section 2.3(a). The Company Holders shall be paid an additional Earnout Payment equal to an amount of Earnout Shares by which the number of Earnout Shares payable in accordance with the recalculation made pursuant to this clause exceeds the number of Earnout Shares payable as originally calculated under Section 2.3(a) following the completion of the First Earnout Period.

For the avoidance of doubt, the parties acknowledge that notwithstanding any catch-up made pursuant to this Section 2.3(b), the aggregate number of Earnout Shares payable in accordance with this Agreement shall in no event exceed 389,382 shares of Parent Common Stock.

Section 2.4 Upside Payment.

(a) Subject to Section 2.4(b), the Company Holders shall be entitled to an Upside Payment with respect to the Second Earnout Period, payable (in the form and amounts required by Section 2.1(d)(iv)), if (and only if) the Company's Profit Adjusted Upside Revenue is equal to or greater than the Minimum Upside Revenue Target, such Upside Payment to be calculated as follows:

(i) if Profit Adjusted Upside Revenue is less than the Minimum Upside Revenue Target, then the Company Holders shall not be entitled to an Upside Payment.

(ii) if Profit Adjusted Upside Revenue is equal to or greater than the Maximum Upside Revenue Target, then the Company Holders shall be entitled to an Upside Payment equal to 100% of the Upside Payment.

(iii) if Profit Adjusted Upside Revenue is equal to or greater than the Minimum Upside Revenue Target but less than the Maximum Upside Revenue Target, then the Company Holders shall be entitled to an Upside Payment equal to the product of (x) $6,473,468 multiplied by (y) the sum of (i) 0.10 and (ii) the product of 0.90 multiplied by a fraction, the numerator of which is the amount by which Profit Adjusted Upside Revenue exceeds the Minimum Upside Revenue Target and the denominator of which is the Upside Spread.

(b) Notwithstanding Section 2.4(a), no Upside Payment shall be due and payable unless each of the following conditions are satisfied:

(i) No Upside Payment shall be paid if at the end of the Second Earnout Period 77% or fewer of the full time employees of the Company and its Subsidiaries are employed outside of the United States. For purposes of this Section 2.4(b)(i), foreign-based employees that are on temporary assignments in the United States shall nonetheless continue to be considered employed outside of the United States but any employees who are present in the United States for more than 180 days during the Second Earnout Period will be considered employed inside of the United States.

(ii) No Upside Payment shall be paid if 62% or more of the Company's consolidated revenues (excluding revenues derived from Analytical Services) included in the Actual Earnout Revenue Amount for the Second Earnout Period is derived in the aggregate from the Two Specified Clients it being agreed that the revenues derived from Consulting Services rendered on any individual project where (A) either of the Two Specified Clients is the customer and (B) such project contributed more than $3,000,000 to revenues in the Second Earnout Period, shall be excluded (but only to the extent that such revenues on such project exceeds $3,000,000) from the calculation of revenues received from the Two Specified Clients and their respective Subsidiaries and the Actual Earnout Revenue Amount for the Second Earnout Period for purposes of determining whether the condition set forth in this Section 2.4(b)(ii) is satisfied.

Section 2.5 Working Capital Adjustment.

(a) Within forty-five (45) Business Days following the Closing Date, the Representative shall deliver to the Parent on behalf of the Company Holders, the Representative's determination (the "Net Working Capital Statement") setting out in reasonable detail the Net Working Capital (as defined below) of the Company and its Subsidiaries as of the close of business on the Closing Date along with appropriate supporting documentation. "Net Working Capital" means (i) all the current consolidated assets (including cash) of the Company and its Subsidiaries as determined in accordance with U.S. GAAP applied on a basis consistent with the Balance Sheet and Audited Financials less (ii) all the current liabilities and all Debt (whether current or long-term) of the Company and its Subsidiaries as determined in accordance with U.S. GAAP applied on a basis consistent with the Balance Sheet and the Audited Financials provided, however, that the aggregate amount of all (A) accrued and unpaid Expenses shall be reflected as liabilities on the Net Working Capital Statement and (B) all out- of pocket fees and expenses incurred since December 31, 2005 in excess of $65,000 relating to the re-auditing of the financial statements for 2003 and 2004 of the Company's Indian subsidiary or the auditing of the Company and its Subsidiaries for 2005 to the extent each is unpaid and accrued shall not be reflected as a liability of the Net Working Capital Statement and to the extent paid in 2006 prior to the Closing Date shall be treated as a current asset on the Working Capital Statement. Net Working Capital shall not include any assets or liabilities of iTouchpoint (as defined) or any of its Affiliates and shall not include as an asset or liability the iTouchpoint Loans or any obligation to make any payment to Company Holders with respect to the iTouchpoint Loans. The Net Working Capital Statement shall be derived from the accounts set forth in the financial statements of the Company and its Subsidiaries on a basis consistent with U.S. GAAP. The Net Working Capital Statement shall be final and binding on the Parent and the Company Holders, subject (if applicable) to the process of objection provided below.

(b) The Parent may dispute the amounts reflected on the Net Working Capital Statement, but only on the basis that (i) the Net Working Capital Statement has not been prepared accurately in accordance with the provisions of this Agreement or (ii) there has been an error in mathematical calculation relating to the Net Working Capital Statement. If the Parent disagrees with the calculation of Net Working Capital, the Parent may, within 30 days after the delivery of the Net Working Capital Statement, deliver a notice to the Representative (the "Net Working Capital Dispute Notice") setting forth the Parent's calculation of Net Working Capital and specifying, in reasonable detail, those items or amounts in the Net Working Capital Statement as to which the Parent disagrees and the reasons for such disagreement. If prior to the conclusion of such 30-day period the Parent notifies the Representative in writing that it will not provide any Net Working Capital Dispute Notice or if no Net Working Capital Dispute Notice is delivered within such 30-day period, Net Working Capital as set forth on the Net Working Capital Statement, shall become final, conclusive and binding on the parties hereto for all purposes of this Agreement.

(c) If the Parent delivers a Net Working Capital Dispute Notice to the Representative within the 30-day period described above, the Parent and the Representative shall use reasonable efforts to reach agreement on the disputed items or amounts in order to determine Net Working Capital. If the Representative and the Parent do not resolve all disputed items or amounts set forth in the Net Working Capital Dispute Notice within 30 days after delivery of a Net Working Capital Dispute Notice, either the Parent or the Representative may elect to submit the remaining disputed items and amounts to a nationally recognized independent accounting firm in the U.S. mutually agreed to by the Parent and the Representative (the "Working Capital Accountants") for resolution of such disputed items and amounts. The Parent and the Representative will each submit a written statement setting forth in reasonable detail their respective positions with respect to only the disputed items set forth in the Net Working Capital Dispute Notice. The Representative and the Parent will furnish to the Working Capital Accountants such work papers and other documents and information relating to the disputed items as the Working Capital Accountants may request and are available to that Party. The Parent and the Representative will have the opportunity to present their positions with respect to such disputed items and amounts to the Working Capital Accountants, and such disputed items and amounts shall be resolved by the Working Capital Accountants in accordance with the requirements of this Agreement. The Working Capital Accountants shall prepare a written report setting forth the resolution of such disputed items and amounts and calculating Net Working Capital which report shall be delivered to each of the Representative and the Parent promptly, but in no event later than 30 days after such disputed items and amounts are submitted to the Working Capital Accountants. Such report shall not reflect any difference from the amount of Net Working Capital other than differences required to reflect the resolution of such disputed items and amounts by the Working Capital Accountants. In resolving any individual disputed item, the Working Capital Accountants may not assign a dollar amount or value to such item that is more than the greatest amount or value, or less than the lowest amount or value, proposed by the Parties in their written statements submitted to the Working Capital Accountants. The calculation of Net Working Capital as set forth in the Working Capital Accountants' written report shall be final, conclusive and binding upon the Company Holders and the Parent. The fees and disbursements of the Working Capital Accountants shall be allocated (and paid as part of the adjustment provided for in Section 2.5(d)) between the Parent, on the one hand, and the Company Holders, on the other hand, such that the Parent's share of such fees and disbursements shall be in the same proportion that the aggregate amount of the disputed items and amounts submitted by the Parent to the Working Capital Accountants that are unsuccessfully disputed by the Parent (as finally determined by the Working Capital Accountants) bears to the total amount of such disputed items and amounts so submitted by the Parent to the Working Capital Accountants. Each of the Representative and the Parent shall execute a reasonably acceptable engagement letter, if requested to do so by the Working Capital Accountants.

(d) Within five (5) Business Days after the final agreement with respect to or final determination of Net Working Capital in accordance with this Section 2.5 the following adjustment to the Merger Consideration shall be made:

(i) if the Net Working Capital (as so finally agreed or determined) exceeds $1,402,958, which the parties acknowledge is the Net Working Capital of the Company and its Subsidiaries as of March 31, 2006 ("Net Working Capital Target"), Parent shall pay to each Company Holder, an amount based upon such person's pro rata percentage interest set forth in the Allocation Schedule to the nearest whole dollar, equal to the amount by which the Net Working Capital as of the Closing Date (as so finally agreed or determined) is greater than the Net Working Capital Target; provided that such amount shall be paid to each Company Holder at the sole election of the Representative, in either (a) cash, (b) a combination of (i) the respective whole number of duly authorized, issued and outstanding shares of Parent Common Stock valued at $23.75 per share (or such securities, cash or property into which Parent Common Stock may have been exchanged by reason of a Capital Change) and (ii) a check in lieu of any fractional shares of Parent Common Stock (or such securities, cash or property into which Parent Common Stock may have been exchanged by reason of a Capital Change) having a combined value equal to the relevant amount on an individual Company Holder basis based upon the Allocation Schedule or (c) such combination of consideration as set forth in clause (a) and clause (b) as the Representative shall elect. In no event shall the Representative instruct Parent to pay an aggregate cash amount pursuant to this Section 2.5(d)(i) and Section 2.1(d)(i) exceeding 19.99% of the portion of the aggregate Tax Merger Consideration paid pursuant to this Section 2.5(d)(i), Section 2.1(d)(i) and Section 2.1(d)(ii).

(ii) if the Net Working Capital (as so finally agreed or determined) is less than the Net Working Capital Target, each Company Holder shall deliver to Parent, including by means of Section 2.8(d), an amount in cash based upon the Allocation Schedule to the nearest whole dollar, equal to the amount by which the Net Working Capital as of the Closing Date (as so finally agreed or determined) is less than the Net Working Capital Target, and if any Company Holder shall fail to so deliver such amount, Parent may cancel a whole number of shares of Parent Common Stock, valued at $23.75 per share, held by such Company Holder and equal in value to such unpaid amount).

(e) Not later than the time at which any adjustment is made (or would be required to be made in the absence of Section 2.5(f)), any Expenses (as defined in Section 5.8) that have not been paid in accordance with Section 5.8 by the Company Holders prior to the Effective Time shall be paid by the Company Holders and if such Expenses shall not have been so paid, then in making the adjustment under Section 2.5(d)(i) or (ii) (and determining whether such adjustment is necessary in accordance with Section 2.5(f)), the Net Working Capital shall be deemed to be reduced by the amount of such unpaid Expenses.

(f) Notwithstanding Section 2.5(d)(i) or (ii), if the difference between the Net Working Capital (as so finally agreed or determined) and the Net Working Capital Target is equal to or less than $25,000 (either positive or negative), then Net Working Capital will be deemed to be equal to the Net Working Capital Target.

Section 2.6 Preparation of Earnout and Upside Statement.

(a) Upon completion and delivery of the monthly operating statements of Parent and its Subsidiaries that Parent provides to its board of directors, the Parent shall deliver to the Representative the operating statements setting forth the separate operating results of the Company and its Subsidiaries. The Representative and the President of the Parent will consult and use their reasonable efforts to resolve any disagreements respecting such operating statements. Within ten (10) days following the completion and delivery by the Parent to the Representative (which shall be not later than ninety (90) days following the completion of each Earnout Period) of the annual audited consolidated financial statements of the Parent and its Subsidiaries for an Earnout Period (which financial statements shall be accompanied by a consolidating financial statement of the Parent and its Subsidiaries derived from such audited consolidated financial statements that sets forth the financial results of the Company and its Subsidiaries and a reconciliation of the monthly operating reports referred to above), but in any event not later than ninety (90) days following the completion of each Earnout Period, the Representative will deliver to the Parent a statement (the "Earnout and Upside Statement") setting forth in reasonable detail the determination of the Earnout Payment and (in the case of the Second Earnout Period only) the Upside Payment, if any, for such Earnout Period. The Earnout and Upside Statement shall be derived from the accounts set forth in the audited financial statements of the Parent and its Subsidiaries for such Earnout Period (to the extent with respect to the First Earnout Period the results of operations of the Company and its Subsidiaries are reflected therein) and the Earnout and Upside Statement for periods prior to the Closing shall be derived from the accounts of the Company and its Subsidiaries, in each case on a basis consistent with U.S. GAAP, and in all events shall be computed in accordance with the terms of this Agreement. The Earnout and Upside Statement shall be final and binding on the Parent and the Company Holders, subject (if applicable) to the process of objection provided below.

(b) The Parent may dispute the amounts reflected on the Earnout and Upside Statement, but only on the basis that (i) the Earnout and Upside Statement has not been prepared accurately in accordance with the provisions of this Agreement or (ii) there has been an error in mathematical calculation relating to the Earn-Out and Upside Statement; provided, that in no event shall the dispute concern the reported audited results of the Parent but such disputes may concern the derivation of the Earnout Payment or the Upside Payment based upon such audited results. If the Parent disagrees with the calculation of the Earnout Payment or the Upside Payment, the Parent may, within 30 days after the delivery of the Earnout and Upside Statement, deliver a notice to the Representative (the "Earn-Out Dispute Notice") setting forth the Parent's calculation of the Earnout Payment and/or in the case of the Second Earnout Period the Upside Payment and specifying, in reasonable detail, those items or amounts in the Earnout and Upside Statement as to which the Parent disagrees and the reasons for such disagreement. If prior to the conclusion of such 30-day period the Parent notifies the Representative in writing that it will not provide any Earn-Out Dispute Notice or if no Earn-Out Dispute Notice is delivered within such 30-day period, the Earnout Payment and the Upside Payment, if any, as set forth on the Earnout and Upside Statement, shall become final, conclusive and binding on the parties hereto for all purposes of this Agreement.

(c) If the Parent delivers an Earn-Out Dispute Notice to the Representative within the 30-day period described above, the Parent and the Representative shall use reasonable efforts to reach agreement on the disputed items or amounts in order to determine the Earnout Payment and the Upside Payment, if any. If the Representative and the Parent do not resolve all disputed items or amounts set forth in the Earn-Out Dispute Notice within 30 days after delivery of an Earn-Out Dispute Notice, either the Parent or the Representative may elect to submit the remaining disputed items and amounts to a nationally recognized independent accounting firm in the U.S. mutually agreed to by the Parent and the

Representative (the "Earn Out Accountants") for resolution of such disputed items and amounts. The Parent and the Representative will each submit a written statement setting forth in reasonable detail their respective positions with respect to only the disputed items set forth in the Earn-Out Dispute Notice. The Representative and the Parent will furnish to the Earn-Out Accountants such work papers and other documents and information relating to the disputed items as the Earn-Out Accountants may request and are available to that Party. The Parent and the Representative will have the opportunity to present their positions with respect to such disputed items and amounts to the Earn-Out Accountants, and such disputed items and amounts shall be resolved by the Earn-Out Accountants in accordance with the requirements of this Agreement. The Earn-Out Accountants shall prepare a written report setting forth the resolution of such disputed items and amounts and calculating the Earnout Payment and the Upside Payment, if any, which report shall be delivered to each of the Representative and the Parent promptly, but in no event later than 30 days after such disputed items and amounts are submitted to the Earn-Out Accountants. Such report shall not reflect any difference from the amount of the Earnout Payment or the Upside Payment other than differences required to reflect the resolution of such disputed items and amounts by the Earn-Out Accountants. In resolving any individual disputed item, the Earn-Out Accountants may not assign a dollar amount or value to such item that is more than the greatest amount or value, or less than the lowest amount or value, proposed by the Parties in their written statements submitted to the Earn-Out Accountants. The calculation of the Earnout Payment and in the case of the Second Earnout Period, the Upside Payment as set forth in the Earn-Out Accountants' written report shall be final, conclusive and binding upon the Representative, the Company Holders and the Parent. The fees and disbursements of the Earn-Out Accountants shall be allocated between the Parent, on the one hand, and the Company Holders, on the other hand, such that the Parent's share of such fees and disbursements shall be in the same proportion that the aggregate amount of the disputed items and amounts submitted by the Parent to the Earn-Out Accountants that are unsuccessfully disputed by the Parent (as finally determined by the Earn-Out Accountants) bears to the total amount of such disputed items and amounts so submitted by the Parent to the Earn-Out Accountants. Each of the Representative and the Parent shall execute a reasonably acceptable engagement letter, if requested to do so by the Earn-Out Accountants.

Section 2.7 Delivery of Earnout Payment and Upside Payment. Any payment of the Earnout Payment or the Upside Payment required to be made pursuant to Section 2.3 or 2.4 shall be paid by the Parent within five (5) Business Days after the final determination of such payments and allocated among the Company Holders in accordance with the Allocation Schedule. The Upside Payment will be effected by delivery of a combination of (i) the respective whole number of duly authorized, issued and outstanding shares of Parent Common Stock and (ii) a check in lieu of any fractional shares of Parent Common Stock having a combined Fair Market Value as of the Upside Equity Valuation Date equal to such Upside Payment unless the Parent elects or is required (to the extent it is permitted or required to do so in accordance with Section 2.1 (d)(iv)) to make such payment in cash in which event the respective amounts shall be made by check delivered to the respective Company Holders. Any Earnout Payment or Upside Payment payable in shares of Parent Common Stock (or such securities, cash or property into which Parent Common Stock may have been exchanged by reason of a Capital Change) will be effected by a combination of (i) the respective whole number of duly authorized, issued and outstanding shares of Parent Common Stock (or such securities, cash or property into which Parent Common Stock may have been exchanged by reason of a Capital Change) and (ii) a check in lieu of any fractional shares of Parent Common Stock (or such securities, cash or property into which Parent Common Stock may have been exchanged by reason of a Capital Change) having a combined value equal to such payment on an individual Company Holder basis.

Section 2.8 Certain other Matters Relating to the Earnout Payment and the Upside Payment.

(a) If, prior to the end of the Second Earnout Period, the Parent, directly or indirectly, acquires (by way of merger, consolidation, purchase of assets, capital stock or other equity interests or other similar transaction), other than purchases of assets in the ordinary course of business, in one transaction or series of related transactions, all or substantially all of the capital stock or other equity interests of any Person or all or substantially all of the assets that constitute a business or division of any Person, the financial results of which are included within the financial results of the Surviving Corporation or its Subsidiaries (each such person an "Acquired Person"), then the Earnout Payment and the Upside Payment shall be calculated without giving effect to the results of operations attributable to such acquisition; provided, however, that if the Acquired Person is a Competing Business (as defined below), or Parent or its Subsidiaries other than the Surviving Corporation and its Subsidiaries internally commences operating a Competing Business then the provisions of clause (h) of the definition of Actual Earnout Revenue Amount shall apply. "Competing Business" shall mean those Persons that are directly or indirectly engaged in any business involving the development, marketing or offering of Analytical Services or Consulting Services but the Parent or its Subsidiaries shall not be deemed to have commenced operating a Competing Business by reason of its operation of a business consistent with the accounting focused portion of Research and Analytics business as conducted by them prior to the Closing or by reason of its undertaking business that the Surviving Corporation and its Subsidiaries do not accept in accordance with clause (f) of the definition of Actual Earnout Revenue Amount. The Parent agrees that if it or any of its Subsidiaries (other than the Surviving Corporation or its Subsidiaries) commences to operate a Competing Business it will not create a separate entity to engage in the Competing Business and will do so as part of the Parent or one of its other operating Subsidiaries other than the Surviving Corporation or its Subsidiaries.

(b) If, prior to the end of the Second Earnout Period the Parent, directly or indirectly, disposes to any Person or Persons (by way of sale, transfer, lease, exchange or other similar transaction) in one transaction or series of related transactions, all or substantially all of the capital stock or other equity interests of any Subsidiary of the Surviving Corporation or all or substantially all of the assets that constitute a business or division of the Surviving Corporation or any of its Subsidiaries, then the Actual Earnout Profit Amount, the Actual Earnout Profit Margin and the Actual Earnout Revenue Amount for purposes of determining the Earnout Payment or the Upside Payment for each Earnout Period that shall not have ended prior to the date of such disposition shall be computed by multiplying the amounts thereof realized during each full fiscal quarter preceding such disposition (the "Disposition Measurement Period") by a fraction, the numerator of which is the cumulative amount thereof realized during the Disposition Measurement Period and the denominator of which is the cumulative amount thereof set forth in the budget for the Disposition Measurement Period as set forth in

Section 2.8(b) of the Company Disclosure Letter. If the disposition triggering this Section 2.8(b) constitutes at least one-third of the consolidated revenues or one-third of the aggregate headcount of the Surviving Corporation and its Subsidiaries (the "Disposition Trigger") then it shall be deemed to be a sale of all of the Surviving Corporation and its Subsidiaries. If the disposition triggering this Section 2.8(b) constitutes less than the Disposition Trigger (i) the methodology set forth in this Section 2.8(b) shall be applied on a pro rated basis to the portion of the operations so disposed calculated on the basis of the reduction in consolidated revenues of the Surviving Corporation and its Subsidiaries and (ii) each of the metrics used to calculate the Earn-out Payment and Upside Payment set forth in Section 9.1 shall be proportionately adjusted to reflect the impact of such disposition. If the provisions of this Section 2.8(b) shall be applicable, any Earnout Payment or the Upside Payment shall be made on the respective Earnout Payment Date if it involves less than the Disposition Trigger and if it involves more than the Disposition Trigger shall be made not later than thirty (30) days following the closing of the transaction that caused this Section 2.8(b) to be applicable.

(c) Parent shall not be obligated to permit the Company or its Subsidiaries to continue servicing any customers, to continue to provide services to customers or to accept new customers if the Parent or such customer or potential customer decides, in their respective sole discretion, to terminate or curtail such services for any reason or not to engage in business with each other. If such services to a customer are so terminated or curtailed, or if any potential customer is rejected or does not commence doing business with the Company or its Subsidiaries, the Parent shall not have any liability hereunder to the Company Holders with respect to revenues which otherwise may have been received with respect to such terminated or curtailed customers or Persons who failed to become customers. The Parent shall have sole discretion as to the manner in which it or its Subsidiaries, including the Company and its Subsidiaries, conducts its business and the geographical locations therefore, without any obligation to the Company Holders. Notwithstanding anything to the contrary set forth in this Agreement, the Surviving Corporation shall not be prohibited from entering into any engagement with any customer upon the terms and conditions set forth in Section 2.8(c) of the Company Disclosure Letter. Upon submission by the Surviving Corporation of a Statement of Work for a proposed customer engagement to the President of the Parent, Parent shall have thirty (30) days to notify the Surviving Company that the proposed engagement does not comply with the policies and procedures governing customer engagements as shall from time to time be adopted by the Parent in good faith and which do not unreasonably discriminate against the Surviving Corporation and its Subsidiaries.

(d) Notwithstanding anything herein to the contrary but subject to Section 8.3(d), the Parent shall have the right to set off against and reduce either Earnout Payment by the amount of Loss for which any Parent Indemnified Party is entitled to indemnification under Section 8.2, or arising out of or in connection with the adjustment described in Section 2.5(d)(ii). In the event any claim is made by Parent with respect to which any Loss may arise, which claim is disputed by the Representative, the Parent may, in good faith, at its option, withhold payment of any Merger Consideration payment (other than the Upside Payment), to the extent of its claim, until final resolution of such claim.

(e) During the Earnout Period:

(i) The Surviving Corporation and its Subsidiaries shall be operated as a separate, wholly-owned operating Subsidiary of Parent, and Parent shall not consolidate the operations of the Surviving Corporation or its Subsidiaries with any other business of the Parent or any of its other Subsidiaries (whether now existing or hereafter acquired). The Parent shall not require the Surviving Corporation or its Subsidiaries to discontinue the use and marketing of their services under the Inductis brand.

(ii) Parent will provide at least as favorable incentives to its sales and marketing personnel to sell the Surviving Corporation's services as the incentives it provides for selling Business Process Risk services and Research & Analytics services provided by Parent and its other Subsidiaries.

(iii) Parent shall not transfer any senior management personnel of the Surviving Corporation or its Subsidiaries to the Parent or its other Subsidiaries without prior consultation with and approval of the Representative.

(f) Examples of the calculation of the Earnout Payment and the Upside Payment contemplated by Sections 2.3 and 2.4 are attached as Section 2.8(f) of the Company Disclosure Letter.

(g) Persons holding Company Options which are surrendered in accordance with clause (iii) of Section 2.2(b) shall participate in the attainment of the targets applicable to the payment of the Earnout Payment and the Upside Payment in respect of such surrendered Company Options through their participation in the Parent Management Incentive Plan attached as Exhibit F hereto. Payments under the Parent Management Incentive Plan shall not affect the amount or timing of the Earnout Payment and the Upside Payment.

(h) If, prior to the end of the Second Earnout Period, there are reversals of accruals or provisions taken in the 2005 Audited Financials, then the Earnout Payment and the Upside Payment shall be calculated without giving effect to such reversals.

Section 2.9 <u>Exchange of Shares</u>.

(a) <u>Exchange Procedures</u>. Promptly after the Effective Time, the Surviving Corporation shall deliver to each holder of record of a Certificate (other than the Company and other than holders of Dissenting Shares) a letter of transmittal in form satisfactory to Parent (i) specifying that delivery shall be effected, and that risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates (or affidavits of loss in lieu of Certificates in accordance with Section 2.9(g)) to the Surviving Corporation; and (ii) such other provisions as Parent or the Company may reasonably specify, together with instructions for surrendering the Certificates in exchange for (A) the Cash Consideration and (B) the shares of Parent Common Stock payable at Closing. Upon surrender of a Certificate for cancellation or affidavit of loss in accordance with Section 2.9(g) to the Surviving Corporation together with a duly executed letter of transmittal, the holder of that Certificate shall be entitled to receive in exchange (1) that number of whole shares of Parent Common Stock that the holder is entitled to receive at the Closing under this Article II, and (2) a check in the amount (after giving effect to any required tax withholding) of (x) the Cash Consideration plus (y) any cash in lieu of fractional shares of Parent Common Stock in accordance with Section 2.9(f) and the Certificate so surrendered shall immediately be canceled. No interest will be paid or accrued on any amount payable upon surrender of the Certificates. In the event of a transfer of ownership of shares of Company Common Stock that is not registered in the transfer records of the Company, the proper number of shares of Parent Common Stock, together with a check for any cash to be paid upon the surrender of the Certificate (including any unpaid dividends or other distributions in respect of those shares of Parent Common Stock under the provisions of this Article II (if any)), may be issued or paid to such transferee if the Certificate formerly representing such shares of Company Common Stock is presented to the Surviving Corporation, accompanied by all documents required to evidence and effect the transfer and to evidence that any applicable stock transfer taxes have been paid. If any shares of Parent Common Stock are to be issued in a name other than that in which the surrendered Certificate is registered, it shall be a condition of such exchange that the person requesting such exchange shall pay any transfer or other taxes required by reason of the issuance of shares of Parent Common Stock in a name other than that of the registered holder of the surrendered Certificate, or shall establish to the satisfaction of the Parent that such tax has been paid or is not applicable.

(b) Distributions with Respect to Unexchanged Company Common Stock. Whenever a dividend or other distribution is declared by the Parent in respect of Parent Common Stock and the record date for that dividend or other distribution is at or after Parent is obligated to issue Parent Common Stock pursuant to Article II, that declaration shall include dividends or other distributions in respect of all such shares issuable under this Agreement. No dividends or other distributions in respect of Parent Common Stock shall be paid to any holder of any unsurrendered Certificate until that Certificate is surrendered for exchange in accordance with this Article II. Subject to the effect of applicable laws, following surrender of any such Certificate, there shall be issued or paid to the holder of the whole shares of Parent Common Stock issued in exchange therefor, without interest, (i) at the time of such surrender, the dividends or other distributions with a record date at or after the Effective Time and a payment date on or prior to surrender and not previously paid and (ii) at the appropriate payment date, the dividends or other distributions payable with respect to such whole shares of Parent Common Stock with a record date at or after Effective Date but with a payment date subsequent to surrender.

(c) No Further Ownership Rights in Company Common Stock. Until surrendered as contemplated by this Section 2.9, each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive the Merger Consideration as contemplated by this Section 2.9, or consideration in respect of Dissenting Shares. All shares of Parent Common Stock, together with any distributions under Section 2.9(b) and any cash under Section 2.9(a) or 2.9(e), issued or paid upon the surrender for or exchange of Certificates in accordance with the terms of this Agreement, shall be deemed to have been issued in full satisfaction of all rights pertaining to the shares of Company Common Stock formerly represented by such Certificates, subject to Section 2.5.

(d) No Further Transfers. After the Effective Time, the stock transfer books of the Company shall be closed and there shall be no further registration of transfers on the records of the Company of the shares of Company Common Stock that were outstanding immediately prior to the Effective Time.

(e) No Fractional Shares. No certificates or scrip representing fractional shares of Parent Common Stock shall be issued upon the surrender for or exchange of Certificates, and such fractional share interest will not entitle its owner to vote, to receive dividends or to any other rights of a holder of Parent Common Stock. Notwithstanding any other provision of this Agreement, each holder of shares of Company Common Stock exchanged pursuant to the Merger who would otherwise have been entitled to receive a fraction of a share of Parent Common Stock (after taking into account all Certificates delivered by such holder) shall receive from the Surviving Corporation, in accordance with the provisions of this Article II, a cash payment in lieu of such fractional shares of Parent Common Stock equal to the product of (i) the fractional share of Parent Common Stock to which such holder would be entitled but for the provisions of this Section 2.9(e) multiplied by (it) $23.75.

(f) Escheat Laws. None of the Parent, the Company, the Representative, the Surviving Corporation or any other person shall be liable to any former holder of shares of Company Common Stock for any amount properly delivered to a public official under applicable abandoned property, escheat or similar laws. Any portion of the Merger Consideration remaining unclaimed by holders of Company Common Stock two years after the Effective Time or two years after any Earnout Payment or Upside Payment becomes payable under this Agreement (or such earlier date immediately prior to such time when the amounts would otherwise escheat to or become property of any Governmental Entity) shall become, to the extent permitted by applicable law, the property of the Surviving Corporation, free and clear of any claims or interest of any Person previously entitled thereto.

(g) Lost Certificates. In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed and the posting by such person of a bond in the form customarily required by the Parent as indemnity against any claim that may be made against it with respect to such Certificate, the Parent will issue in exchange for such lost, stolen or destroyed Certificate the Cash Consideration, the shares of Parent Common Stock, any unpaid dividends or other distributions and any cash in lieu of a fractional share of Parent Common Stock in respect of that Certificate issuable or payable under this Article II upon due surrender thereof and deliverable in respect of the shares of Company Common Stock represented by such Certificate under this Agreement, in each case without interest.

Section 2.10 Appraisal Rights.

(a) Notwithstanding anything in this Agreement to the contrary, any shares of Company Common Stock that are held by any record holder who has not voted in favor of the Merger or consented thereto in writing and who has demanded appraisal rights in accordance with Section 262 of the DGCL (the "Dissenting Shares"), shall not be converted into the right to receive the Merger Consideration but shall become the right to receive such consideration from the Surviving Corporation as may be determined to be due in respect of such

Dissenting Shares pursuant to the DGCL; provided, however, that any holder of Dissenting Shares who shall have failed to perfect or shall have withdrawn or lost his rights to appraisal of such Dissenting Shares, in each case under and to the extent provided in the DGCL, shall forfeit the right to appraisal of such Dissenting Shares, and such Dissenting Shares shall be deemed to have been converted into the right to receive the Merger Consideration without interest. Notwithstanding anything to the contrary contained in this Section 2.10, if the Merger is rescinded or abandoned, then the right of any stockholder to be paid the fair value of such stockholder's Dissenting Shares shall cease. The Surviving Corporation shall comply with all of its obligations under the DGCL with respect to holders of Dissenting Shares.

(b) The Company shall give the Parent (i) prompt notice of any demands for appraisal, and any withdrawals of such demands, received by the Company and any other related instruments served pursuant to the DGCL and received by the Company, and (ii) the opportunity to participate in all negotiations and proceedings with respect to demands for appraisal under the DGCL. The Company shall not, except with the prior written consent of the Parent, make any payment with respect to any demands for appraisal or negotiate, offer to settle or settle any such demands.

(c) For the avoidance of doubt, at the Effective Time, the Dissenting Shares shall no longer be outstanding, shall be canceled and shall cease to exist, and such Dissenting Shares shall thereafter represent only the rights set forth in this Section 2.10.

Section 2.11 Adjustments to Prevent Dilution. In the event that prior to the Effective Time there is any issuance of, or change in the number of, securities convertible or exchangeable into or exercisable for shares of Company Common Stock or Parent Common Stock as a result of a Capital Change, then the Merger Consideration will be proportionally and equitably adjusted to reflect such Capital Change.

Section 2.12 Withholding Rights. Each of the Surviving Corporation and the Parent shall be entitled to deduct and withhold from any amounts otherwise payable pursuant to this Agreement to any holder of a Certificate such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code, or any provisions of Law. To the extent that amounts are so withheld by the Parent, such withheld amounts shall be treated for purposes of this Agreement as having been paid to the holder of a Certificate in respect to which such deduction and withholding was made by the Parent. Any Company Holder who is subject to withholding as a result of Section 2.2 may elect in lieu of having such withholding made in cash, to have the number of shares of Parent Common Stock that such Company Holder is entitled to receive under Section 2.1(d)(ii) reduced in the amount of $23.75 per share of Parent Common Stock. Any Company Holder so electing to have the number of shares of Parent Company Stock reduced, shall for purposes of determining such Company Holder's share in any Earnout Payment, Upside Payment, or pro rata share of any indemnification obligation hereunder, be treated as owning the shares so reduced and, accordingly, no adjustment to the Allocation Schedule shall be made by reason of such election.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE MAJOR STOCKHOLDERS

Each of the Major Stockholders, severally and not jointly, represents and warrants (except as to the matters respecting the Major Stockholders set forth in Sections 3.3(c) (Capitalization; Ownership), 3.4(b) (Authority), 3.5 (No Conflict), 3.6 (Required Filings & Consents) and 3.28 (Conflicts of Interest) as to which each Major Stockholder is making such representations and warranties with respect to such Major Stockholder only), and the Company represents and warrants (except as to the matters set forth in Sections 3.3(c) (Capitalization; Ownership), 3.4(b) (Authority), 3.5(a) (No Conflict, as such section relates to the Major Stockholders), 3.6(b) (Required Filings & Consents), and 3.28 (Conflicts of Interest), as to which no representation or warranty is made by the Company) to the Parent and Merger Sub that:

Section 3.1 Organization and Qualification.

(a) The Company has been duly organized and is validly existing and in good standing under the laws of the State of Delaware, and has the requisite power and authority and all necessary governmental approvals to own, lease and operate its properties and to carry on its business as it is now being conducted. Except as set forth in Section 3.1(a) of the Company Disclosure Letter, the Company is duly qualified or licensed to do business, and is in good standing, in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification or licensing necessary, except where the failure to be so qualified, licensed or in good standing would not have a Material Adverse Effect on the Company.

(b) Each of the Subsidiaries of the Company is a limited liability company or corporation, as the case may be, duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and has all requisite power and authority to own and operate its property and assets and to conduct its business and assets as currently conducted. Except as set forth in Section 3.1(b) of the Company Disclosure Letter, each of the Subsidiaries of the Company is duly qualified or licensed to do business, and is in good standing, in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification or licensing necessary, except where the failure to be so qualified, licensed or in good standing would not have a Material Adverse Effect on the Company.

(c) The merger of Inductis, Inc. and Inductis Group LLC was duly authorized and became effective on December 31, 2005. Such merger was completed in compliance with all applicable Law.

Section 3.2 Certificate of Incorporation and By-Laws. The Company has delivered to the Parent complete and correct copies of (i) the certificate of incorporation and by-laws (or other equivalent organizational documents) of the Company and each of its Subsidiaries, each as amended through the date of this Agreement, (ii) the minute books (or comparable records) of the Company and each of its Subsidiaries through the date of this Agreement, which contain true and complete records of all meetings and consents in lieu of meeting of the Company and each of its

Subsidiaries since the time of the Company's and each of its Subsidiaries' organization, and which accurately reflect, in all material respects, all transactions referred to in such minute books, and (iii) the stock books (or comparable records) of the Company and each of its Subsidiaries through the date of this Agreement. Neither the Company nor any of the Subsidiaries is in violation of any of the provisions of its certificate of incorporation or by-laws or other equivalent organizational document.

Section 3.3 Capitalization; Ownership.

(a) The authorized capital stock of the Company consists of (i) 37,000,000 shares of Company Common Stock of which 25,000,000 are class C-l Common Stock and 12,000,000 are Class C-2 Common Stock and (ii) 7,000,000 shares of preferred stock, par value $0.0001 per share of the Company the "Company Preferred Stock". As of the date of this Agreement, (i) 8,937,235 shares of Class C-l Common Stock and 956,077 shares of Class C-2 Common Stock were issued and outstanding, all of which were validly issued and are fully paid, nonassessable and not subject to, or issued in violation of, any preemptive rights and (ii) no shares of Company Preferred Stock were issued or outstanding and (iii) 822,500 shares of Common Stock are held in treasury by the Company. A true, complete and accurate list of the holders of the capital stock of the Company and the number and classes of shares so held is set forth in Section 3.3(a) of the Company Disclosure Letter and except as listed in Section 3.3(a) of the Company Disclosure Letter, the Company has no other authorized, issued or outstanding shares of capital stock. Except as listed in Section 3.3(a) and (d) of the Company Disclosure Letter, there are no existing options, rights, subscriptions, warrants, unsatisfied preemptive rights, calls or commitments of any character relating to (c) the authorized and unissued capital stock or treasury stock of the Company or (d) any securities or obligations convertible into or exchangeable for, or giving any Person any right to subscribe for or acquire from the Company any shares of capital stock of the Company. Except as set forth in Section 3.3(a) of the Company Disclosure Letter, there are no outstanding agreements to which the Company is a party respecting the voting, transferring or holding of shares of the Company's capital stock.

(b) None of the Company or its Subsidiaries owns any equity interest in any Person except that the Persons listed in Section 3.4(b) of the Company Disclosure Letter are the wholly-owned, direct or indirect Subsidiaries of the Company. The authorized and issued shares of capital stock, or other comparable ownership interests, of each of the Subsidiaries is set forth in Section 3.3(b) of the Company Disclosure Letter. Except as listed in Section 3.3(b) of the Company Disclosure Letter, all issued and outstanding capital stock, or other comparable ownership interests, of each of the Company's Subsidiaries is owned by the Company, free and clear of all security interests, liens, claims, pledges, options, rights of first refusal, agreements, preemptive rights, limitations on voting rights, charges and other encumbrances of any nature whatsoever (collectively, "Liens"). Except as listed in Section 3.3(b) of the Company Disclosure Letter, there are no existing options, rights, subscriptions, warrants, unsatisfied preemptive rights, calls or commitments of any character relating to (i) the authorized and unissued capital stock or treasury stock (or other comparable ownership interests) of the Subsidiaries of the Company or (ii) any securities or obligations convertible into or exchangeable for, or giving any Person any right to subscribe for or acquire from the Subsidiaries of the Company any shares of capital stock (or other comparable ownership interests) of such Subsidiary. Except as set forth in Section 3.3(b) of the Company Disclosure Letter, there are no outstanding agreements to which the Company or its Subsidiaries is a party respecting the voting, transferring or holding of shares of such Subsidiary's capital stock or other comparable ownership interests.

(c) All of the outstanding shares of Company Common Stock are owned beneficially and of record by the Company Holders, and in the respective amounts, as set forth in Section 3.3(a) of the Company Disclosure Letter, and, except as set forth in Section 3.3(c) of the Company Disclosure Letter are free and clear of Liens.

(d) Section 3.3(d) of the Company Disclosure Letter sets forth, as of the date of this Agreement, (w) the persons to whom Company Stock Options have been granted, (x) the date of grant for the company Stock Options held by each such person, (y) the exercise price for the Company Stock Options held by each such person and (z) whether such Company Stock Options (or Company Common Stock issued upon exercise of any Company Stock Options) are subject to vesting and, if subject to vesting, the dates on which each of those Company Stock Options (or Company Common Stock issued upon exercise of any Company Stock Options) vest. Except as set forth in Section 2.2(a), none of the Company Stock Options (or Company Common Stock issued upon exercise of any Common Stock Options) that are subject to vesting will vest as a result of the consummation of the Merger and the transactions contemplated by this Agreement.

Section 3.4 Authority.

(a) The Board of Directors of the Company has unanimously approved this Agreement, and the transactions contemplated by this Agreement. The Company has all necessary corporate power and authority to execute and deliver this Agreement, to perform its obligations under this Agreement, and to consummate the Merger and the other transactions contemplated by this Agreement. Subject to adoption of this Agreement by the affirmative vote of the holders of a majority of the outstanding Class C-1 Common Stock entitled to vote on the Merger at the Company Stockholders Meeting (the "Requisite Company Vote"), the execution and delivery by the Company of this Agreement and the consummation of the transactions contemplated by this Agreement, have been duly and validly authorized by all necessary corporate action and no other corporate proceedings on the part of the Company are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been validly executed and delivered by the Company and (assuming the due authorization, execution and delivery by the Parent and the other parties thereto) constitute legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium or other laws generally affecting creditors' rights and general equitable principles.

(b) This Agreement and the Stockholders Agreement have been, or will be, duly executed and delivered by such Major Stockholder and (assuming the due authorization, execution and delivery by the Company and the other parties thereto) constitute legal, valid and binding obligations of such Major Stockholder, enforceable against such Major Stockholder in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium or other laws generally affecting creditors' rights and general equitable principles.

(c) This Agreement has been, or will be, duly executed and delivered by the Representative and (assuming the due authorization, execution and delivery by the other parties thereto) constitutes or will constitute a legal, valid and binding obligation of the Representative, enforceable against the Representative in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium or other laws generally affecting creditors' rights and general equitable principles.

Section 3.5 No Conflict.

(a) Except as set forth in Section 3.5(a) of the Company Disclosure Letter, the execution and delivery of this Agreement and the Stockholders Agreement by the Company and each of the Major Stockholders and the Representative does not, and the performance of this Agreement by the Company, the Major Stockholders and the Representative will not:

(i) conflict with or violate any provision of the Company's or its Subsidiaries' certificate of incorporation or by-laws or other equivalent organizational documents;

(ii) assuming the receipt of the Requisite Company Vote and that all consents, approvals, authorizations and other actions described in Section 3.6 have been obtained and all filings and obligations described in Section 3.6 have been made, (i) conflict with or violate any Delaware or U.S. federal law or (ii) to the Knowledge of the Company, conflict with or violate any other domestic or foreign Law applicable to the Company and its Subsidiaries or by which any property or asset of the Company and its Subsidiaries is bound; or

(iii) result in any breach of or constitute a default (or an event that with or without notice or lapse of time or both would become a default) under, or give to others any right of termination, amendment, acceleration or cancellation of, or result in the creation of a Lien on any property or asset of the Company or under any note, bond, mortgage, indenture, contract, agreement, commitment, lease, license, permit, franchise or other instrument or obligation (collectively, "Contracts") to which the Company or its Subsidiaries is a party or by which the Company or its Subsidiaries' assets or properties is bound.

(b) Section 3.5(b) of the Company Disclosure Letter sets forth a list, correct and complete in all material respects, of Contracts to which the Company or any of its Subsidiaries is a party or by which it or its assets or properties are bound under which consents or waivers are required prior to consummation of the transactions contemplated by this Agreement.

Section 3.6 Required Filings and Consents. Except as set forth in Section 3.6 of the Company Disclosure Letter, the execution and delivery of this Agreement and the Stockholders Agreement do not, and the performance of this Agreement and the Stockholders Agreement by the Company will not, require any consent, approval, authorization or permit of, or filing with or notification to, any domestic or foreign national, federal, state, provincial or local governmental, regulatory or administrative authority, agency, commission, court, tribunal or arbitral body or self-regulated entity (each, a "Governmental Entity"), other than the applicable requirements of the Securities Act, applicable requirements of state securities or "blue sky" laws ("Blue Sky Laws") and the filing of the Certificate of Merger as required by the DGCL.

Section 3.7 Permits; Compliance with Law.

(a) Each of the Company and its Subsidiaries is in possession of all franchises, grants, authorizations, licenses, permits, easements, variances, exceptions, consents, certificates, approvals and orders of any Governmental Entity necessary for it to own, lease and operate its properties or to carry on its business as it is now being conducted (collectively, the "Company Permits"), and, as of the date of this Agreement, no suspension or cancellation of any of the Company Permits is pending or, to the Knowledge of the Company, threatened and no such suspension or cancellation will result from the transactions contemplated by this Agreement. Except as set forth on Section 3.7 of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries is in conflict with, or in default or violation of, (i) any Law applicable to the Company or its Subsidiaries or by which any property or asset of the Company or its Subsidiaries is bound or (ii) any Company Permits, except for conflicts, defaults or violations of an immaterial nature. Section 3.7 of the Company Disclosure Letter sets forth a correct and complete list of the Company Permits.

(b) The Company and its Subsidiaries are in compliance in all material respects with all legal requirements under (i) the Foreign Corrupt Practices Act (15 U.S.C. §§ 78dd-1, et seq.) and the Organization for Economic Cooperation and Development Convention Against Bribery of Foreign Public Officials in International Business Transactions and legislation implementing such Convention and (ii) international anti-bribery conventions (other than the convention described in clause (i)) and the local anti-corruption and bribery Laws, in each case, in jurisdictions in which the Company and its Subsidiaries are operating (collectively, the "Anti-Bribery laws"). To the Company's Knowledge, neither the Company nor any of its Subsidiaries has received any written communication that alleges that the Company, its Subsidiaries or any agent thereof is, or may be, in violation of, or has, or may have, any material liability under, the Anti-Bribery Laws.

Section 3.8 Financial Statements.

(a) Audited Financial Statements. The Company has delivered to Parent copies of the consolidated balance sheet of the Company and its Subsidiaries for the fiscal year ended December 31, 2005 and December 31, 2004 and the related consolidated statements of income and cash flows, together with all related footnotes and schedules thereto, accompanied by the audit report of Russell Bedford Stefanou Mirchandani LLP, independent auditors of the Company for the fiscal year ended December 31, 2005 (the "2005 Audited Financials"), December 31, 2004 and December 31, 2003 (collectively, the "Audited Financials"). The Audited Financials fairly present (i) the consolidated financial position of the Company and its Subsidiaries as of the date thereof and (ii) the consolidated results of operations and cash flows of the Company and its Subsidiaries for the fiscal period covered thereby. The Audited Financials have been prepared in accordance with U.S. GAAP applied on a consistent basis, except as indicated in the notes thereto. The Company has not had any material dispute with any of its auditors regarding accounting matters or policies during any of its past two full fiscal years or during the current fiscal year that is currently outstanding or that resulted in a past adjustment to, or any restatement of, the Audited Financials.

(b) Balance Sheet. The Company has delivered to Parent copies of the unaudited consolidated balance sheet of the Company and its Subsidiaries for the three months ended March 31, 2006 (the "Balance Sheet") and the related consolidated statements of income and cash flows (the "Interim Financials"). The Interim Financials fairly present (i) the consolidated financial position of the Company and its Subsidiaries as of the date thereof and (ii) the consolidated results of operations and cash flows of the Company and its Subsidiaries for the fiscal period covered thereby. Except as set forth in Section 3.8(b) of the Company Disclosure Letter, the Interim Financials have been prepared in accordance with U.S. GAAP applied on a basis consistent with the Audited Financials, except that the Interim Financials do not contain footnotes and are subject to normal year-end adjustments.

(c) The Company has established and maintains internal control over financial reporting which is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with U.S. GAAP. There are no significant deficiencies or material weaknesses in the design or operation of the Company's internal controls and procedures which could adversely affect the Company's ability to record, process, summarize and report financial data.

Section 3.9 Absence of Certain Changes or Events. Other than as set forth in Section 3.9 of the Company Disclosure Letter, since March 31, 2006, there has been no Material Adverse Effect on the Company and the Company has no Knowledge of any facts or circumstances that could reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect on the Company.

Section 3.10 Liabilities.

(a) Except as set forth on Section 3.10 of the Company Disclosure Letter, the Company nor any of its Subsidiaries has any liabilities other than: (a) liabilities reflected in the Audited Financials or the Interim Financials; (b) liabilities accruing after March 31, 2006 in the ordinary course of business; (c) liabilities otherwise reflected in this Agreement or the Company Disclosure Letter; and (d) other liabilities that would not have, individually or in the aggregate, a Material Adverse Effect on the Company.

(b) Neither the Company nor any of its Subsidiaries has obligations or liabilities, under the Asset Purchase Agreement dated November 23, 2005 (the "iTouchpoint APA"), among the Company, iTouchpoint Technologies LLC ("iTouchpoint"), and the other parties named therein or, except as set forth in Section 3.10(b) of the Company Disclosure Letter or under the Letter of Intent, dated August 18, 2005 (the "iTouchpoint LOI"), from Inductis Group LLC to iTouchpoint Technologies, LLC, Vijay Parekh and Arun Watts. Neither the Company nor any of its Subsidiaries have any liability or obligation to iTouchpoint or any of its Affiliates or members, nor does iTouchpoint or its Affiliates have any liability or obligation to the Company or its Subsidiaries, and neither the Company nor its Subsidiaries is a party to or bound by any Contract with iTouchpoint or any of its affiliates or members. The iTouchpoint APA and the iTouchpoint LOI were terminated without any obligation or liability of the Company or its Subsidiaries and Section 3.10(b) of the Company Disclosure Letter sets forth a true and complete copy of the agreement pursuant to which the iTouchpoint APA and the iTouchpoint LOI were terminated.

Section 3.11 Employee Benefit Plans.

(a) Section 3.11(a) of the Company Disclosure Letter sets forth a correct and complete list of (i) all employee welfare benefit plans (as defined in section 3(1) of the Employee Retirement Income Security Act of 1974 ("ERISA")), (ii) all employee pension benefit plans (as defined in Section 3(2) of ERISA) and (iii) all other employee benefit plans, programs, policies, agreements or arrangements, including any deferred compensation plan, incentive plan, bonus plan or arrangement, stock option plan, stock purchase plan, stock award plan or other equity-based plan, change in control agreement, retention, severance pay plan, dependent care plan, sick leave, disability, death benefit, group insurance, hospitalization, dental, life, any fund, trust or arrangement providing health benefits including multiemployer welfare arrangements, a multiple employer welfare fund or arrangement, cafeteria plan, employee assistance program, scholarship program, employment contract (other than offer letters for at-will employment), retention incentive agreement, termination agreement, severance agreement, consulting agreement, vacation policy, employee loan, or other similar plan, agreement or arrangement, whether written or oral, funded or unfunded, or actual or contingent that (A) is maintained by the Company or any of its Affiliates for the benefit of current employees of the Company or any of its Affiliates ("Company Employees"), former Company Employees or their beneficiaries, consultants or directors of the Company (collectively, "Affected Employees"), (B) has been approved by the Company or any of its Affiliates but is not yet effective for the benefit of Affected Employees or their beneficiaries, or (C) was previously maintained by the Company or any of its Affiliates for the benefit of the Affected Employees or their beneficiaries and with respect to which the Company has any liability (each a "Plan" and collectively the "Plans"). The Company has made available to Parent a correct and complete copy (where applicable) of (1) each Plan (or, where a Plan has not been reduced to writing, a summary of all material Plan terms of such Plan), (2) each trust or funding arrangement prepared in connection with each such Plan, (3) the three most recently filed annual reports on Internal Revenue Service ("IRS") Form 5500 or any other annual report required by applicable Law, (4) the most recently received IRS determination letter for each such Plan, (5) the most recently prepared actuarial report and financial statement in connection with each such Plan, (6) the most recent summary plan description, any summaries of material modification, any employee handbooks, (7) for the last three years, all correspondence with the IRS, United States Department of Labor ("DOL") and any other Governmental Entity (A) pertaining to an audit of a Plan or a submission under the IRS Employee Plans Compliance Resolution System (except for routine ministerial correspondence acknowledging receipt of such a submission and the like), (B) pertaining to a determination letter application (except for routine ministerial correspondence acknowledging receipt of such an application and the like) (C) requesting information from or about a Plan, (D) pertaining to a penalty or proposed penalty in respect of the operation of a Plan, (E) pertaining to a prohibited transaction or alleged prohibited transaction under Sections 406 or 407 of ERISA or an excise tax under Section 4975 of the Code, (F) regarding the termination or proposed termination of a Plan, (G) pertaining to the frequency or timing of transactions of an investment fund maintained under a Plan, or (H) relating to a claim for benefits made under a Plan and (8) all contracts with third-party administrators, actuaries, investment managers, consultants and other independent contractors that relate to any Plan. Neither the Company nor any of its Subsidiaries has any plan or commitment to establish any new Plan or to modify any Plan except as required by Law.

(b) Neither the Company, any of its Subsidiaries nor any other Person or entity that, together with the Company or any of its Subsidiaries, is or was treated as a single employer under Section 414(b), (c), (m) or (o) of the Code (each, together with the Company and any of its Subsidiaries, an "ERISA Affiliate"), has now or at any time within the past six years (and in the case of any such other Person or entity, only during the period within the past six years that such other Person or entity was an ERISA Affiliate) contributed to, sponsored, or maintained (i) a pension plan (within the meaning of Section 3(2) of ERISA) subject to Section 412 of the Code or Title IV of ERISA, (ii) a multiemployer plan (within the meaning of Section 3(37) or 4001(a)(3) of ERISA or the comparable provisions of any other applicable Law) (a "Multiemployer Plan") or (iii) a single employer pension plan (within the meaning of Section 4001(a)(15) of ERISA) for which an ERISA Affiliate would reasonably be expected to incur liability under Section 4063 or 4064 of ERISA. Except as set forth in Section 3.1l(b) of the Company Disclosure Letter, no Plan exists that would reasonably be expected to result in the payment to any current or former Company Employee, director or consultant of the Company or any of its Subsidiaries of any money or other property or accelerate or provide any other rights or benefits to any current or former Company Employee, director or consultant of the Company or any of its Subsidiaries as a result of the consummation of the Merger or any other transaction contemplated by this Agreement (whether alone or in connection with any other event). Except as set forth in Section 3.11 (b) of the Company Disclosure Letter, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (either alone or in combination with another event) result in any payment or other benefit that has been or may be made to any current or former Company Employee or independent contractor of the Company or any of its Subsidiaries under any employment, severance or termination agreement, other compensation arrangement or employee benefit plan or arrangement with the Company or any of its Subsidiaries to be characterized as an "excess parachute payment," as such term is defined in Section 280G of the Code. Neither the Company nor any of its Subsidiaries is a party to any material contract, arrangement or plan pursuant to which it is bound to compensate any Person for any excise or other additional Taxes paid pursuant to Section 409A or 4999 of the Code or any similar provision of state, local or foreign Law.

(c) Other than as set forth in Section 3.11(c) of the Company Disclosure Letter, (i) each Plan has been maintained and operated in compliance in all material respects with its terms and applicable Law, including ERISA, the Code, Section 4980B of the Code (as well as its predecessor provision, Section 162(k) of the Code) and Sections 601 through 608, inclusive, of ERISA, which provisions are hereinafter referred to collectively as "COBRA", and any other applicable Laws, including the Americans with Disabilities Act of 1990, the Family and Medical Leave Act of 1993 and the Health Insurance Portability and Accountability Act of 1996, (ii) with respect to each Plan, all reports, returns, notices and other documentation that are required to have been filed with or furnished to the IRS, the DOL or any other Governmental Entity, or to the participants or beneficiaries of such Plan have been filed or furnished on a timely basis, (iii) each Plan that is intended to be qualified within the meaning of Section 401(a) of the Code is the subject of a favorable advisory or opinion letter from the IRS to the effect that the Plan satisfies the requirements of Section 401 (a) of the Code taking into account the changes in qualification requirements under Section 401(a) of the Code made by the Uruguay Round Agreements Act, the Small Business Job Protection Act of 1996, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Taxpayer Relief Act of 1997, the Internal Revenue Service Restructuring and Reform Act of 1998, and the Community Renewal Tax Relief Act of 2000 and that its related trust is exempt from taxation under Section 501(a) of the Code and has been timely amended to reflect changes in the qualification requirements under Section 401(a) of the Code made by the Economic Growth and Tax Relief Reconciliation Act of 2001 and any applicable IRS guidance issued thereunder, and to the Knowledge of the Company there are no facts or circumstances that could reasonably be expected to cause the loss of such qualification or the imposition of any liability, penalty or tax under ERISA, the Code or any other applicable Laws, (iv) other than routine claims for benefits, no Liens, Claims or complaints to or by any person or Governmental Entity have been filed against any Plan or the Company or against any other Person and to the Knowledge of the Company no such Liens, Claims or complaints are contemplated or threatened with respect to any Plan.

(d) Except as set forth on Section 3.11(d) of the Company Disclosure Letter, to the Knowledge of the Company with respect to any Plan, (i) no Claims (other than routine claims for benefits in the ordinary course) are pending or threatened, (ii) no facts or circumstances exist that would reasonably be expected to give rise to any such Claims and (iii) no administrative investigation, audit or other administrative proceeding by the DOL, the IRS or other Governmental Entity, including any voluntary compliance submission through the IRS’s Employee Plans Compliance Resolution System or the DOL’s Voluntary Fiduciary Correction Program, is pending, in progress or threatened.

(e) Except as set forth on Section 3.11(e) of the Company Disclosure Letter, neither the Company, any of its Subsidiaries nor to the Knowledge of the Company any other “party in interest” or “disqualified person” with respect to any Plan has engaged in a non- exempt “prohibited transaction” within the meaning of Section 406 of ERISA or Section 4975 of the Code involving such Plan. To the Knowledge of the Company, no fiduciary has any liability for breach of fiduciary duty or any other failure to act or comply with the requirements of ERISA, the Code or any other applicable Laws in connection with the administration or investment of the assets of any Plan.

(f) Except as set forth in Section 3.11(f) of the Company Disclosure Letter, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (either alone or in combination with another event) (i) result in any payment becoming due, or increase the amount of any compensation due, to any Affected Employee, (ii) increase any benefits otherwise payable under any Plan, (iii) result in the acceleration of the time of payment or vesting of any such compensation or benefits or (iv) result in a non-exempt “prohibited transaction” within the meaning of Section 406 of ERISA or section 4975 of the Code.

(g) No oral commitments have been made by an officer of the Company with the authority to make such commitments that would preclude the Company from amending or terminating any Plan to the extent the Plan otherwise permits amendment or termination.

(h) All contributions (including all employer contributions and employee salary reduction contributions) or premium payments required to have been made as of the date hereof under the terms of any Plan, in accordance with applicable Law (including pursuant to 29 C.F.R. Section 2510.3-102), and have been timely made or reflected on the Company's financial statements in accordance with U.S. GAAP. No "accumulated funding deficiency" as defined in Section 302 of ERISA or Section 412 of the Code, whether or not waived, exists with respect to any Plan subject to Section 302 of ERISA or Section 412 of the Code and the Company is not and does not expect to be, subject to (i) any requirement to post security pursuant to Section 412(f) of the Code or (ii) any lien pursuant to Section 412(n) of the Code.

(i) The Company and its Affiliates have complied, and currently comply, in all material respects with the applicable continuation coverage requirements for each Plan that is an employee welfare plan, as defined in Section 3(1) of ERISA, including (i) COBRA and (ii) any applicable state Laws mandating health insurance continuation coverage for employees. Except for the continuation coverage requirements under COBRA, the Company and its Affiliates have no obligations or potential liability for benefits to current or former Affected Employees or their respective employees or their respective dependents following termination of employment or retirement under any of the Plans that are employee welfare benefit plans.

(j) Each Plan subject to the provisions of Section 401(k) or 401(m) of the Code, or both, has been tested for and has satisfied the requirements of Section 401(k)(3), Section 401(m)(2) and Section 416 of the Code, as applicable, for each plan year ending prior to Closing.

(k) Except as set forth on Schedule 3.11(k) of the Company Disclosure Letter, with respect to each Plan maintained in a jurisdiction outside of the United States or for employees outside of the United States, including any such plan required to be maintained or contributed to by applicable law, custom or rule of the relevant jurisdiction ("Foreign Plan"): (i) each Foreign Plan is operated and maintained in accordance with applicable laws in all material respects; (ii) all employer and employee contributions to each Foreign Plan required by law or by the terms of such Foreign Plan have been made, or, if applicable, accrued in accordance with normal accounting practices; (iii) the fair market value of the assets of each funded Foreign Plan, the liability of each insurer for any Foreign Plan funded through insurance or the book reserve established for any Foreign Plan, together with any accrued contributions, is sufficient to procure or provide for the accrued benefit obligations, as of the Effective Time, with respect to all current or former participants in such plan according to the actuarial assumptions and valuations most recently used to determine employer contributions to such Foreign Plan and no transaction contemplated by this Agreement shall cause such assets or insurance obligations to be less than such benefit obligations; and (iv) each Foreign Plan required to be registered has been registered and has been maintained in good standing with applicable regulatory authorities and the Company has obtained all necessary approvals in connection therewith. Each Foreign Plan is set forth on Schedule 3.11(a).

Section 3.12 Labor and Employment Matters.

(a) Section 3.12(a) of the Company Disclosure Letter contains a correct and complete list of all of the Company Employees, together with each Company Employee's title or job description and work location. The Company has separately delivered to Parent a correct and complete list of each Company Employee's annualized salary or hourly wage rate.

(b) Except as set forth in Section 3.12(b) of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries is, or at any time has been, a party to any collective bargaining agreement or other labor union agreements applicable to Company Employees, nor is any such collective bargaining agreement being negotiated, nor are there any Company Employees represented by a trade union or a labor organization or, to the Company's Knowledge, activities or proceedings of any labor union to organize any Company Employees. Except as disclosed in Section 3.12 of the Company Disclosure Letter, the Company and its Subsidiaries have not at any time during the last five years had any union organizing efforts or any strike, picket, work stoppage, work slowdown or other labor dispute. The Company and its Subsidiaries (i) have no direct or indirect liability with respect to any misclassification of any Persons as an independent contractor rather than as an employee or with respect to any Company Employee leased from another employer, (ii) are in compliance in all material respects with applicable foreign, federal, state and local Laws respecting employment, employment practices, labor relations, employment discrimination, health and safety, terms and conditions of employment and wages and hours, in each case, with respect to Company Employees, and (iii) have not received any written remedial order or notice of offense under applicable occupational health and safety Law.

(c) The Company has not incurred, and does not reasonably expect to incur, any liability or obligation under the Worker Adjustment and Retraining Notification Act, and the regulations promulgated thereunder (the "WARN Act"), or any similar state or local Law which remains unsatisfied.

(d) There is no unfair labor practice charge or complaint against the Company or its Affiliates involving or related to Company Employees pending (with service of process having been made, or written notice of investigation or inquiry having been served, on the Company or its Affiliates), or otherwise pending or, to the Company's Knowledge, threatened, before the National Labor Relations Board or any court.

(e) Except as set forth in Section 3.12(e) of the Company Disclosure Letter, the Company and each of its Affiliates are in material compliance with all applicable federal, state, local and foreign Laws concerning the employer-employee relationship, including applicable wage and hour Laws, fair employment Laws, safety Laws, workers' compensation statutes, unemployment Laws and social security Laws. Except as described in Section 3.12(e) of the Company Disclosure Letter, with respect to the Company and any of its Affiliates, there are no pending, and the Company has received no threats in writing and has no Knowledge of any other threats regarding Claims, charges, citations or consent decrees concerning: (i) wages, compensation, bonuses, commissions, awards or payroll deductions, equal employment or human rights violations regarding race, color, religion, sex, national origin, age, disability, veteran's status, martial status, or any other recognized class, status or attribute under any federal, state, local or foreign equal employment Law prohibiting discrimination, (ii) representation petitions or unfair labor practices, (iii) occupational safety and health, (iv) workers' compensation, (v) wrongful termination, negligent hiring, invasion of privacy or defamation or (vi) immigration or any other claims under state or federal labor Law.

Section 3.13 Title to Properties; Liens. The Company and its Subsidiaries have good, sufficient and legal title to all of their respective properties and assets (including all of the assets reflected on the Balance Sheet), free and clear of any Liens and subject only to (i) Liens for Taxes (as defined in Section 3.18(a)) not due and payable and (ii) Liens as set forth in Section 3.13 of the Company Disclosure Letter. Except for the Liens referred to in the previous sentence, all such properties and assets are free and clear of Liens of any kind and, to the Knowledge of the Company, there are no defaults with respect to any leases of real property under which the Company or any of its Subsidiaries is lessee or lessor.

Section 3.14 Contracts; Debt Instruments.

(a) Except for the Contracts disclosed in Section 3.14(a) of the Company Disclosure Letter (any such Contract required to be disclosed in such Section 3.14(a), a "Material Contract"), true and complete copies of which have been made available to the Parent, the Company and its Subsidiaries have no:

(i) Contracts (other than offer letters for at-will employment and invention assignment, confidentiality and non-compete agreements) with any current or former (to the extent the Company has surviving obligations) officer, director, stockholder, employee or, consultant, or to the Company's Knowledge, with an entity in which any of the foregoing is a controlling person;

(ii) Contracts with any labor union or association representing any employee of the Company or any of its Subsidiaries;

(iii) Other than Contracts relating to employment, Contracts with any person to sell, distribute or otherwise market any products or services of the Company or any of its Subsidiaries;

(iv) Contracts for the purchase of materials, supplies, goods, services, equipment or other assets providing for annual payments by the Company or any of its Subsidiaries of, or pursuant to which in the last year the Company or any of its Subsidiaries paid in the aggregate, U.S.$25,000 or more;

(v) customer Contracts pursuant to which in the last year the Company or any of its Subsidiaries received any revenues;

(vi) Contracts for the sale of any assets other than in the ordinary course of business or for the grant to any person of any option or preferential rights to purchase any assets for a purchase price in excess of U.S.$35,000 or of any real property;

(vii) Contracts with respect to any partnerships or joint ventures involving the Company or any of its Subsidiaries;

(viii) Contracts under which the Company or any of its Subsidiaries agree to indemnify any party for Taxes or to share Tax liability of any party;

(ix) Contracts with customers, distributors or suppliers for the sharing of fees, rebating of charges or other similar arrangements;

(x) Contracts that purport to restrict or prohibit the Company or any of its Subsidiaries or any of the Company's or any of its Subsidiaries' officers, directors or employees, directly or indirectly, from engaging in any business involving the development, marketing and offering of Analytical Services or Consulting Services and the provision of related services currently engaged in by the Company or competing with any Person in any geographical area;

(xi) Contracts relating to the acquisition by the Company or any of its Subsidiaries of any operating business or the capital stock of any other person;

(xii) Contracts relating to the borrowing of money or guarantees in respect thereof;

(xiii) Contracts containing obligations or liabilities to holders of the capital stock of the Company to register any of such securities under any federal or state securities Laws;

(xiv) Contracts for the direct or indirect extension or maintenance of credit, arrangement of the extension of credit or renewal of an extension of credit, in each case in the form of a personal loan to or for any officer or director of the Company or any of its Subsidiaries or, to the Company's Knowledge, to any other entity in which any of the foregoing has an interest;

(xv) Contracts pursuant to which the Company provides or receives management services or other similar agreements with any person;

(xvi) Other than as listed above, Contracts pursuant to the terms of which there is either a current or future obligation or right of the Company or any of its Subsidiaries to make payments in excess of U.S.$25,000 or receive payments in excess of U.S.$25,000;

(xvii) other than as listed in Schedule 3.5(b) of the Company Disclosure Letter, Contracts that have "change of control" clauses; and

(xviii) other than Contracts that are otherwise required to be set forth above in this Section 3.14(a), Contracts that are otherwise material to the business, financial condition or results of operations of the Company or any of its Subsidiaries.

(b) Each Material Contract constitutes a valid and legally binding obligation of the Company or any of its Subsidiaries and, to the Knowledge of the Company, of the other parties thereto, enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium, or other laws generally affecting creditors' rights and general equitable principles, and is in full force and effect. The Company, each of its Subsidiaries and, to the Knowledge of the Company, any other person that is a party thereto, are not in violation of or in default under (nor does there exist any condition that with the passage of time or the giving of notice would cause such a violation of or default under) any Material Contract.

(c) Section 3.14(c) of the Company Disclosure Letter lists and describes the status of customer or vendor Contracts currently in active negotiation or currently proposed by the Company or any of its Subsidiaries ("Proposed Customer Contracts"). The Company has delivered to the Parent true and complete copies of the most recent draft, letter of intent or term sheet (or if none exist, a reasonably detailed written summary) embodying the terms of all of the Proposed Customer Contracts set forth in Section 3.14(c) of the Company Disclosure Letter.

Section 3.15 Litigation. Except as disclosed in Section 3.14 of the Company Disclosure Letter, there is no suit, claim, action, proceeding or investigation (collectively, "Claims") pending or, to the Knowledge of the Company, threatened (either in writing or by a verbal threat that could reasonably be expected to be followed by a written threat) against the Company or any of its Subsidiaries before any Governmental Entity. The Company and each of its Subsidiaries are not subject to any outstanding Order.

Section 3.16 Environmental Matters. Other than as set forth on Section 3.16 of the Company Disclosure Letter, except as has not resulted and could not reasonably be expected to result in a Material Adverse Effect on the Company:

(a) to the Company's Knowledge, the Company and each of its Subsidiaries are and have been in compliance with all applicable Laws relating to pollution, protection of the environment or health and safety ("Environmental Laws");

(b) the Company has not received written notice and does not otherwise have Knowledge that there is any claim pursuant to Environmental Laws or principles of common law relating to pollution, protection of the environment or health and safety (an "Environmental Claim") pending or, to the Knowledge of the Company, threatened against the Company or any of its Subsidiaries;

(c) there is no civil, criminal or administrative judgment or notice of violation outstanding against the Company or any of its Subsidiaries pursuant to Environment Laws or principles of common law relating to pollution, protection of the environment or health and safety; and

(d) to the Company's Knowledge, there are no past or present events, conditions, circumstances, activities, practices, incidents, actions or plans that may prevent compliance of the Company or any of its Subsidiaries with Environmental Laws, or that have given rise to or could reasonably be expected to give rise to an Environmental Claim against the

Company or any of its Subsidiaries or to liability or obligations pursuant to Environmental Laws incurred by the Company or any of its Subsidiaries.

Section 3.17 Intellectual Property.

(a) For purposes of this Agreement, "Intellectual Property" means all of the following as they are used in connection with the business of the Company or its Subsidiaries as presently conducted and as they exist in any jurisdiction throughout the world, in each case, to the extent owned by, licensed to or otherwise used or held for use by the Company or its Subsidiaries:

(i) United States and foreign patents, patent applications and the inventions, designs and improvements described and claimed therein, patentable inventions and other patent rights (including any divisions, continuations, continuations-in-part, substitutions, or reissues thereof, whether or not patents are issued on any such applications and whether or not any such applications are amended, modified, withdrawn or resubmitted) (collectively, "Patents");

(ii) trademarks, service marks, trade dress, trade names, brand names, Internet domain names, designs, logos or corporate names (including, in each case, the goodwill associated therewith), whether registered or unregistered, and all registrations and applications for registration thereof (collectively, "Trademarks");

(iii) copyrights, including all renewals and extensions, copyright registrations and applications for registration, and non-registered copyrights (collectively, "Copyrights");

(iv) trade secrets, confidential business information, concepts, ideas, designs, research or development information, processes, procedures, techniques, technical information, specifications, operating and maintenance manuals, engineering drawings, methods, know-how, technical data and databases, discoveries, inventions, modifications, extensions, improvements and other proprietary rights (whether or not patentable or subject to copyright, trademark, or trade secret protection) (collectively, "Trade Secrets");

(v) computer software programs, including all source code, object code and documentation related thereto, except for shrink-wrapped software commercially available at a cost of less than $500 ("Company Software"); and

(vi) all licenses and sublicenses and other agreements or permissions granting the Company any rights in the property described in Section 3.16(a)(i) through (v).

(b) Section 3.17(b) of the Company Disclosure Letter sets forth all registrations, issuances, filings and applications for Intellectual Property filed by the Company or its Subsidiaries or any of their respective predecessors. The Company or its Subsidiaries own or otherwise have the right to use pursuant to a valid, enforceable license, sublicense or other agreement, free and clear of all Liens, and have the unrestricted right to use all Intellectual

Property. To the Knowledge of the Company, all such items of Intellectual Property are valid, subsisting or in full force and effect.

(c) Section 3.17(c) of the Company Disclosure Letter sets forth all Intellectual Property licenses, sublicenses, distributor agreements and other agreements to which the Company or its Subsidiaries are a party. The Company and its Subsidiaries have substantially performed all obligations imposed upon them thereunder, and are not, nor, to the Knowledge of the Company, is any other party thereto in breach of or default thereunder in any material respect, nor, to the Knowledge of the Company, is there any event that with notice or lapse of time or both would constitute a default thereunder. Other than as described in Section 3.17(c) of the Company Disclosure Letter, to the Knowledge of the Company, all of the Intellectual Property licenses, are valid, enforceable and in full force and effect and will continue to be so on identical terms immediately following the Merger. Other than as described in Section 3.17(c) of the Company Disclosure Letter, the transactions contemplated by this Agreement will not result in the termination of, or otherwise require the consent of any party to, any Intellectual Property license listed in Section 3.17(c).

(d) Except as set forth in Section 3.17(d) of the Company Disclosure Letter, none of the Intellectual Property that (i) is owned or has been developed by the Company or its Subsidiaries and is intended to be sold or licensed by the Company or its Subsidiaries to any person or included in any product to be based upon such Intellectual Property or (ii) to the Knowledge of the Company, is used by or licensed to the Company or its Subsidiaries by any person, infringes upon or otherwise violates any Intellectual Property rights of others.

(e) Except as set forth in Section 3.17(e) of the Company Disclosure Letter, no litigation is pending and no Claim has been made against the Company or its Subsidiaries or, to the Knowledge of the Company, is threatened against the Company or its Subsidiaries, and the Company has no Knowledge of any basis for any Claim, (i) contesting the right of the Company to sell, license or make available to any Person or use the Intellectual Property presently sold, licensed or made available to such Person or used by the Company or its Subsidiaries or (ii) opposing or attempting to cancel any rights of the Company or such Subsidiary in its Intellectual Property.

(f) Except as set forth in Section 3.17(f) of the Company Disclosure Letter, to the Knowledge of the Company, no person is infringing upon or otherwise violating the Intellectual Property rights of the Company or its Subsidiaries.

(g) The Company or its Subsidiaries have taken reasonable precautions to protect the secrecy, confidentiality and value of its Trade Secrets and the proprietary nature and value of its Intellectual Property.

(h) Except as set forth in Section 3.17(h) of the Company Disclosure Letter, each present or past employee, officer, consultant or any other person who developed any material part of any Intellectual Property that is owned by the Company or its Subsidiaries has executed a valid and enforceable agreement with the Company or its Subsidiaries that (i) conveys any and all right, title and interest in and to all Intellectual Property developed by such Person in connection with such Person’s employment or contract to the Company or its

Subsidiaries, (ii) requires such Person, during and after the term of employment or contract, to cooperate with the Company or its Subsidiaries in the prosecution of any patent applications filed in connection with such Intellectual Property, (iii) to the extent such Person is an author of a copyrighted work created in connection with such person's employment or contract, such work is a "work made for hire," as set forth in 17 U.S.C. § 101, (iv) establishes a warranty by such person that no process, technique, innovation or other work product provided to the Company or its Subsidiaries is derived from or otherwise incorporates the proprietary information of a prior employer or contractor, in contravention of any prior confidentiality agreement, and (v) obligates the employee or contractor to keep any Company confidential information, including Trade Secrets, confidential both during and after the term of employment or contract.

(i) To the Company's Knowledge, none of the Trade Secrets, wherever located, the value of which is contingent upon maintenance of the confidentiality thereof, have been disclosed to any employee, representative or agent of the Company or its Subsidiaries or any other person not obligated to maintain such Trade Secret in confidence pursuant to a confidentiality agreement entered into with the Company or its Subsidiaries except as required pursuant to the filing of a patent application by the Company or its Subsidiaries.

(j) All Company Software is described in Section 3.17(j) of the Company Disclosure Letter. Except as set forth in Section 3.17(j) of the Company Disclosure Letter, the Company Software performs in substantial conformance with its documentation and is fully and freely transferable to the Surviving Corporation without any third party consents. None of the Company Software owned by, or developed by or on behalf of, the Company or a Subsidiary contains or requires use of any "open source" code, shareware or other software that is made generally available to the public without requiring payment of fees or royalties or may or does require disclosure or licensing of any such software or any other Intellectual Property owned by the Company or a Subsidiary.

(k) Neither the Company nor any of its Subsidiaries is nor, as a result of the execution and delivery of this Agreement or the performance of its obligations hereunder, will be, in violation of any agreement relating to any Intellectual Property. After the completion of the transactions contemplated by this Agreement, the Surviving Corporation or one of its Subsidiaries will own all right, title and interest in and to or have a license to use all Intellectual Property on identical terms and conditions as the Company and its Subsidiaries enjoyed immediately prior to such transactions.

(l) Except as set forth on Schedule 3.17(l) of the Company Disclosure Letter, each of the Company and its Subsidiaries has a published technology usage policy (each, a "Usage Policy") regarding the collection and use of information from customers and other parties ("Customer Information"), copies of which have been provided to the Parent. To the Knowledge of the Company, neither the Company nor any of its Subsidiaries has collected, received or used any Customer Information in an unlawful manner or in violation of its Usage Policy. Each of the Company and its Subsidiaries is in compliance with applicable Law governing the collection, use and dissemination of customer information. Each of the Company and its Subsidiaries has adequate and appropriate security measures in place to protect the Customer Information it receives from illegal or unauthorized access or use. No Person has gained unauthorized access to or made any unauthorized use of any Customer Information. The consummation of the transactions contemplated by this Agreement and the transfer of the Customer Information will not violate the Usage Policy of the Company or its Subsidiaries as it currently exists or as it existed at any time during which any of the Customer Information was collected or obtained.

Section 3.18 Taxes. Except as otherwise noted in Section 3.18 of the Company Disclosure Letter:

(a) The Company and its Subsidiaries have fully and timely paid all Taxes owed by such companies (whether or not shown on any Tax Return), and have made adequate provision for any Taxes that are not yet due and payable, for all taxable periods, or portions thereof, ending on or before the date hereof.

(b) All Tax Returns required to be filed by or with respect to the Company or any of its Subsidiaries have been properly prepared and timely filed, and all such Tax Returns (including information provided therewith or with respect to thereto) are true, complete and correct in all material respects.

(c) The Company and its Subsidiaries will not be required to pay any Taxes of any other Person (other than the Company and its Subsidiaries) by reason of Treas. Reg. § 1.1502-6, Treas. Reg. § 1.1502-78 or any comparable provision of state, local or foreign law that provides for joint or several liability, in whole or in part.

(d) No audit or other proceeding by any Governmental Entity with respect to any Taxes due from or with respect to the Company or any of its Subsidiaries has been claimed or raised by such authority in writing, no Governmental Entity has given notice of any intention to assert any deficiency or claim for additional Taxes against the Company or any of its Subsidiaries, no claim has been made by any Governmental Entity in a jurisdiction where the Company and its Subsidiaries does not file Tax Returns that it is or may be subject to taxation by that jurisdiction, and all deficiencies for Taxes asserted or assessed against the Company or any of its Subsidiaries have been fully and timely paid, settled or properly reflected in the Audited Financials.

(e) There are no tax consequences from the Company's change from cash- method to accrual-basis accounting other than adjustments under section 481(a) of the Code for each of the taxable year ending on the Closing Date and the taxable years ending on December 31 of the years 2006, 2007 and 2008. Except as set forth on Section 3.18(e) of the Company Disclosure Letter, the Company has not agreed to and is not required to make any other adjustments under section 481(a) of the Code (or under any similar provision of state, local or foreign tax law) by reason of a change in accounting method or otherwise for any tax period for which the applicable federal statute of limitations has not yet expired.

(f) The Company will not have any liability after the Closing Date under any tax sharing allocation or indemnification agreement to which it has been a party, and all such agreements in effect before the Closing Date shall terminate and be of no further force and effect as of the end of the Closing Date.

(g) There are no Liens for Taxes on the assets of the Company except for statutory Liens for current Taxes not yet due.

(h) The Company is not, and has not been, a United States real property holding corporation (as defined in section 897(c)(2) of the Code) during the applicable period specified in section 897(c)(1)(A)(ii) of the Code.

(i) No closing agreements, private letter rulings, technical advice memoranda or similar agreements or rulings have been entered into or issued by any taxing authority with respect to the Company.

(j) The Company and its Subsidiaries have given or otherwise made available to Parent true, correct and complete copies of all Tax Returns, examination reports and statements of deficiencies for taxable periods ended after December 31, 2003.

(k) There are no outstanding agreements extending or waiving the statutory period of limitations applicable to any claim for, or the period for the collection or assessment or reassessment of, Taxes due from the Company or any of its Subsidiaries for any taxable period and no request for any such waiver or extension is currently pending.

(l) The Company and its Subsidiaries have each withheld (or will withhold) from their respective employees, independent contractors, creditors, stockholders and third parties and timely paid to the appropriate Governmental Entity proper and accurate amounts in all material respects for all periods ending on or before the Closing Date in compliance with all Tax withholding and remitting provisions of applicable laws and have each complied in all material respects with all Tax information reporting provisions of all applicable Laws.

(m) Neither the Company nor any of its Subsidiaries has constituted a "distributing corporation" or a "controlled corporation" (within the meaning of Section 355(a)(1)(A) of the Code) in a distribution of shares qualifying for tax-free treatment under Section 355 of the Code (i) in the two years prior to the date of this Agreement or (ii) in a distribution that could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the transactions contemplated by this Agreement.

(n) Any adjustment of Taxes of the Company or any of its Subsidiaries made by the Internal Revenue Service (the "IRS"), which adjustment is required to be reported to the appropriate state, local, or foreign governmental authorities, has been so reported.

(o) Neither the Company nor any of its Subsidiaries is subject to any private letter ruling of the IRS or comparable ruling of any other taxing authority.

(p) Neither the Company nor any of its Subsidiaries nor, to the Knowledge of the Company, any of its affiliates, has taken or agreed to take, or has failed to take, any action, nor is the Company or any of its Subsidiaries aware of any fact, agreement, plan or other circumstance, that would prevent the Merger from constituting a transaction qualifying as a reorganization under Section 368(a) of the Code.

(q) Neither the Company nor any of its Subsidiaries has entered into any transaction that constitutes (i) a "reportable transaction" within the meaning of Treas. Reg. § 1.6011-4(b), (ii) a "confidential tax shelter" within the meaning of Treas, Reg. § 301.6111-2(a)(2) or (iii) a "potentially abusive tax shelter" within the meaning of Treas. Reg. § 301.6112-(b).

(r) The Company has a current transfer pricing study from a qualified accountant and is in compliance in all material respects with the results of such transfer pricing study. Inductis India Private Limited is in compliance with all the relevant provisions of the (Indian) Income-tax Act, 1961, including without limitation, the provisions of Sections 92 to 92F of the Income-tax Act.

(s) Inductis India Private Limited is a software technology park unit as referred to in Section 10A of the (Indian) Income-tax Act, 1961 and is entitled to exemption from tax on income under Section 10A of the (Indian) Income-tax Act, 1961. There is no action, claim, proceeding, assessment, investigation, complaint or litigation pending or threatened in connection with Inductis India Private Limited's status as a software technology park unit or the benefits of such status, including without limitations, the benefits of such status under Section 10A of the (Indian) Income-tax Act, 1961.

Section 3.19 Agreements with Regulatory Agencies. Except as set forth in Section 3.19 of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries (a) is subject to any ceasc-and-desist or other Order issued by, (b) is a party to any written agreement, consent agreement or memorandum of understanding with, (c) is a party to any commitment letter or similar undertaking to, (d) is subject to any order or directive by, (e) is a recipient of any extraordinary supervisory letter from, or (f) has adopted any board resolutions at the request of (each of clauses (a)-(e) of this Section 3.19, a "Company Regulatory Agreement"), any Governmental Entity that restricts the conduct of its business or that in any manner relates to its management or its business, or could reasonably be expected, following consummation of the Merger, to impair the Parent's ability to conduct the business of the Surviving Corporation, the Parent or any Subsidiary of the Parent (each, a "Parent Subsidiary"), as presently conducted. The Company has not been advised by any Governmental Entity that such Governmental Entity is considering issuing or requesting any Company Regulatory Agreement, except for any such proposed Company Regulatory Agreements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect on the Company.

Section 3.20 Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the Merger or the other transactions contemplated by this Agreement or the Stockholders Agreement based upon arrangements made by or on behalf of the Company or any of its Subsidiaries.

Section 3.21 Certain Statutes. The provisions of Section 203 of the DGCL do not apply to this Agreement or the Merger or any of the transactions contemplated hereby.

Section 3.22 Receivables. Except as set forth on Section 3.22 of the Company Disclosure Letter, all accounts and notes receivable reflected on the Balance Sheet, and all accounts and notes receivable arising subsequent to May 31, 2006, have arisen in the ordinary course of business of the Company or its Subsidiaries and, to the Knowledge of the Company, are collectible in the ordinary course of business of the Company in the aggregate recorded amounts thereof in accordance with their terms. Section 3.22 of the Company Disclosure Letter lists any obligor that together with all of its affiliates owed accounts and notes receivable as of May 31, 2006.

Section 3.23 Accounts Payable. The Company has delivered a complete and accurate list of the accounts payable of the Company (including an aging schedule) as of May 31, 2006.

Section 3.24 Suppliers and Customers.

(a) Section 3.24(a) of the Company Disclosure Letter lists, by dollar volume paid for the year ended on December 31, 2005, those vendors of the Company to whom the Company paid an amount exceeding $35,000. Except as noted in Section 3.24(a) of the Company Disclosure Letter, to the Company's Knowledge (i) the relationships of the Company with such vendors are good commercial working relationships, (ii) no person listed in Section 3.24 to the Company Disclosure Letter has threatened within the last twelve (12) months to cancel or otherwise terminate or intends to cancel or otherwise terminate, the relationship of such person with the Company.

(b) Section 3.24(b) of the Company Disclosure Letter lists, by revenue for the year ended on December 31, 2005, all customers of the Company. Except as noted in Section 3.24(b) of the Company Disclosure Letter, to the Company's Knowledge (i) the relationships of the Company with such customers are good commercial working relationships, and (ii) no person listed in Section 3.24(b) to the Company Disclosure Letter has threatened within the last twelve (12) months to cancel or otherwise terminate or intends to cancel or otherwise terminate, the relationship of such person with the Company.

Section 3.25 Insurance. Section 3.25 of the Company Disclosure Letter sets forth a list (specifying the insurer, describing each pending claim thereunder and setting forth the aggregate amounts paid out under each such policy through the date hereof and the aggregate limit, if any, of the insurer's liability thereunder) of all policies or binders of fire, liability, errors and omissions, product liability, worker's compensation, vehicular and other insurance held by or on behalf of the Company and any of its Subsidiaries. Such policies and binders are valid and binding in accordance with their terms, are in full force and effect, and, to the Company's Knowledge, insure against risks and liabilities to an extent and in a manner customary in the industries in which the Company and its Subsidiaries operates. The Company is not in default with respect to any provision contained in any such policy or binder and has not failed to give any notice or present any claim under any such policy or binder in due and timely fashion. Except for claims set forth in Section 3.25 of the Company Disclosure Letter, there are no outstanding unpaid claims in favor of the Company or its Subsidiaries under any such policy or binder, and neither the Company nor any of its Subsidiaries has received written notice of cancellation or non-renewal of any such policy or binder. Except as set forth in Section 3.25 of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries has received written notice from any of its insurance carriers or any Governmental Entity that any insurance premiums will or may be materially increased in the future or that any insurance coverage listed in Section 3.25 of the Company Disclosure Letter will or may not be available in the future on substantially the same terms as now in effect.

Section 3.26 Officers, Directors and Employees. Section 3.26 of the Company Disclosure Letter sets forth (a) the name, title and total compensation (for the previous three years) of each officer and director of the Company and each of its Subsidiaries; (b) any payments or commitments to pay any severance or termination pay to any such persons; and (d) any accrual for, or any commitment or agreement by the Company and any of its Subsidiaries to pay, such increases, bonuses or pay. None of such persons has indicated that he or she will cancel or otherwise terminate such person's relationship with the Company or any of the Subsidiaries.

Section 3.27 Potential Conflicts of Interest. Except as set forth in Section 3.27 of the Company Disclosure Letter, to the Company's Knowledge, (i) no Major Stockholder, officer, director or Affiliate of the Company or of any Major Stockholder, (ii) no relative or spouse (or relative of such spouse) of any such officer, director or Affiliate of the Company or of any Major Stockholder, and (iii) no entity controlled by any one or more of the foregoing: (a) owns, directly or indirectly, any interest in (excepting not more than 5% stock holdings for investment purposes in securities of publicly held and traded companies), or is an officer, director, employee or consultant of the Company or its Subsidiaries or any Person or entity which is, or is engaged in business as, a competitor, lessor, lessee, customer, distributor, sales agent, or supplier of the Company or its Subsidiaries; (b) owns, directly or indirectly, in whole or in part, any tangible or intangible property that the Company or its Subsidiaries uses or the use of which is necessary or desirable for or material to the conduct of its business; (c) has any cause of action or other claim whatsoever against, or owes any amount to, the Company or its Subsidiaries, except for claims in the ordinary course of business, such as for accrued vacation pay, accrued benefits under employee benefit plans, and similar matters and agreements existing on the date hereof; or (d) on behalf of the Company or its Subsidiaries, has made any payment or commitment to pay any commission, fee or other amount to, or purchase or obtain or otherwise contract to purchase or obtain any goods or services from any Person of which any officer, director or Affiliate of the Company, or a relative of any of the foregoing, is a partner or shareholder (excepting not more than 5% stock holdings solely for investment purposes in securities of publicly held and traded companies). Section 3.27 of the Company Disclosure Letter sets forth a list of all Potential Employee Conflicts that have been approved by the Company or its Subsidiaries or any member of the management thereof.

Section 3.28 Banks, Brokers and Proxies. Section 3.28 of the Company Disclosure Letter sets forth (a) the name of each bank, trust company, securities or other broker or other financial institution with which the Company or any of its Subsidiaries has an account, credit line or safe deposit box or vault, or otherwise maintains relations; (b) the name of each person authorized by the Company or any of its Subsidiaries to draw thereon or to have access to any safe deposit box or vault; (c) the purpose of each such account, safe deposit box or vault; and (d) the names of all persons authorized by proxies, powers of attorney or other instruments to act on behalf of the Company or any of its Subsidiaries in matters concerning its business or affairs.

Section 3.29 Vote Required. The Requisite Company Vote is the only vote of the holders of any class or series of the Company's capital stock necessary (under the certificate of incorporation and by-laws or other organizational documents of the Company, the DGCL, other applicable Law or otherwise) to adopt this Agreement, the Merger or the other transactions contemplated by this Agreement.

Section 3.30 Full Disclosure. No representation or warranty made by the Company pursuant to this Agreement, the Company Disclosure Letter or any certificate furnished by the Company pursuant to this Agreement, contains or will contain at the Effective Time an untrue statement of a material fact or omits or will omit at the Effective Time to state a material fact necessary to make the statements made herein or therein, in the context in which made, not misleading.

Section 3.31 iTouchpoint Receivable. As of June 15, 2006, iTouchpoint was indebted to the Company in the principal amount of Three Million, Eighty-One Thousand, Five Hundred Dollars ($3,081,500) plus accrued interest pursuant to certain Short-Term Loans (the "iTouchpoint Loans"). Prior to the Effective Time, the iTouchpoint Loans shall have been contributed to iTouchpoint Services, LLC, a wholly-owned non-operating Subsidiary of the Company, all of the interests in which shall have been distributed prior to the Effective Time to the stockholders of the Company. Such limited liability company shall have assumed as of the Effective Time all of the Company's obligations related thereto, including all obligations under the Subordination Agreement, dated May, 2006, between Sandeep Tyagi, Vijay Parekh, the Company and iTouchpoint and iTouchpoint Services LLC shall have no assets other than the iTouchpoint Loans as of the time of such distribution.

Section 3.32 Accounting and Tax Matters. The Company, its Subsidiaries and the Company Holders have not taken or agreed to take any action, and the Company, its Subsidiaries and such Company Holders are not aware of any agreement, plan or other circumstance, that would prevent the Merger from constituting a transaction qualifying as a reorganization under section 368(a) of the Code.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

The Parent and Merger Sub represent and warrant to the Company that:

Section 4.1 Organization and Qualification. Each of the Parent and Merger Sub has been duly organized and is validly existing under the laws of the State of

Delaware and has the requisite power and authority and all necessary governmental approvals to own, lease and operate its properties and to carry on its business as it is now being conducted. Neither the Company nor Merger Sub has taken or agreed to take any action that would prevent the Merger from constituting a reorganization qualifying under the provisions of section 368(a) of the Code.

Section 4.2 Certificate of Incorporation and By-Laws. The Parent has delivered to the Company complete and correct copies of (i) the certificate of incorporation and by-laws (or other equivalent organizational documents) of Parent and Merger Sub, each as amended through the date of this Agreement and (ii) the stock books (or comparable records) of Parent and Merger Sub through the date of this Agreement. Neither Parent nor Merger Sub is in violation of any of the provisions of its certificate of incorporation or by-laws or other equivalent organizational documents.

Section 4.3 Capitalization. The authorized capital stock of Parent consists of (i) 13,000,000 shares of Parent Common Stock of which 11,121,878 are Series A Common Stock, par value $.001 per share ("Series A Common Stock") and 1,659,230 are Series B Non-voting Common Stock, par value $.001 per share ("Series B Common Stock") and (ii) 55,833.36 shares of Series A Preferred Stock, par value $.001 per share ("Parent Preferred Stock"). As of the date of this Agreement, 10,081,778 shares of Series A Common Stock, 614,876 shares of Series B Common Stock and 45,304 shares of Parent Preferred Stock were issued and outstanding, all of which were validly issued and are fully paid, nonassessable and not subject to or issued in violation of any preemptive rights. Except as listed in Section 4.3(A) of the Parent Disclosure Letter, there are no existing options, rights, subscriptions, warrants, unsatisfied preemptive rights, calls or commitments of any character relating to the authorized and unissued capital stock or treasury stock of the Company or any securities or obligations convertible into or exchangeable for, or giving any Person any right to subscribe for or acquire from the Company any shares of capital stock of the Company. Except as set forth in Section 4.3(B) of the Parent Disclosure Letter, there are no outstanding agreements to which the Company is a party respecting the voting, transferring or holding of shares of the Company's capital stock.

Section 4.4 Authority. The Board of Directors of Parent and Merger Sub have unanimously approved this Agreement, and the Stockholders Agreement, and the transactions contemplated by this Agreement and the Stockholders Agreement. Each of Parent and Merger Sub has all necessary corporate power and authority to execute and deliver this Agreement, and the Stockholders Agreement, and to perform its obligations under this Agreement, and the Stockholders Agreement and to consummate the Merger and the other transactions contemplated by this Agreement and the Stockholders Agreement. The execution and delivery of this Agreement, and the Stockholders Agreement, by Parent and Merger Sub, and the consummation of the transactions contemplated by this Agreement and the Stockholders Agreement have been duly and validly authorized by all necessary corporate action of each of Parent and Merger Sub and no other corporate proceedings on the part of Parent or Merger Sub are necessary to authorize this Agreement, and the Stockholders Agreement, or to consummate such transactions (other than adoption of this Agreement by Parent as sole stockholder of Merger Sub, which shall occur immediately after the execution and delivery of this Agreement). This Agreement, and the Stockholders Agreement, have been duly authorized and validly executed and delivered by Parent and Merger Sub as applicable, and constitute legal, valid and binding obligations of each of Parent and Merger Sub, enforceable against each of Parent and Merger Sub in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium or other laws generally affecting creditors' rights and general equitable principles. All shares of Parent Common Stock to be issued under the terms of this Agreement, upon issuance prior to the Effective Time on the terms and conditions specified in the instruments under which they are useable, will be duly authorized, validly issued, fully paid, nonassessable and will not be subject to preemptive rights.

Section 4.5 No Conflict. The execution and delivery of this Agreement by each of Parent and Merger Sub does not, and the performance of this Agreement by each of Parent and Merger Sub will not:

(i) conflict with or violate any provision of Parent's or Merger Sub's certificate of incorporation and by-laws (or other equivalent organizational documents);

(ii) assuming that all consents, approvals, authorizations and other actions described in Section 4.6 have been obtained and all filings and obligations described in Section 4.6 have been made, conflict with or violate any Law applicable to Parent or Merger Sub or by which any property or asset of Parent or Merger Sub is or may be bound or affected, except for any such conflicts or violations that, individually or in the aggregate, have not resulted and could not reasonably be expected to result in a Material Adverse Effect on Parent; or

(iii) result in any breach of or constitute a default (or an event that with or without notice or lapse of time or both would become a default) under, or give to others any right of termination, amendment, acceleration or cancellation of, or result in the creation of a Lien on any property or asset of Parent or any or Merger Sub under, any Contract to which Parent or its Subsidiaries is a party or by which Parent or its Subsidiaries' assets or properties is or may be bound or affected, except for any such breaches, defaults or other occurrences that, individually or in the aggregate, would not result and could not reasonably be expected to result in a Material Adverse Effect on Parent.

Section 4.6 Required Filings and Consents. The execution and delivery by Parent or Merger Sub of this Agreement and the Stockholders Agreement as applicable, does not, and the performance of this Agreement and the Stockholders Agreement, by each of Parent and Merger Sub as applicable will not, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Entity other than for applicable requirements of the Securities Act, Blue Sky Laws, and the filing of the Certificate of Merger as required by the DGCL.

Section 4.7 Financial Statements.

(a) Audited Financial Statements. Parent has delivered the Company copies of the consolidated balance sheet of Parent and its Subsidiaries for the fiscal year ended December 31, 2005 and the related consolidated statements of income and cash flows, together with all related footnotes and schedules thereto, accompanied by the audit report of Ernst & Young LLP, independent auditors of Parent (collectively, the "Parent Audited Financials"). The Parent Audited Financials fairly present (i) the consolidated financial position of Parent and its Subsidiaries as of the date thereof and (ii) the consolidated results of operations and cash flows of Parent and its Subsidiaries for the fiscal period covered thereby. The Parent Audited Financials have been prepared in accordance with U.S. GAAP applied on a consistent basis, except as indicated in the notes thereto.

(b) Parent Interim Statements. Parent has delivered to the Company copies of the unaudited consolidated balance sheet of Parent and its Subsidiaries for the three months ended March 31, 2006 and the related consolidated statements of income and cash flows (collectively, the "Parent Interim Statements"). The Parent Interim Statements fairly present (i) the consolidated financial position of Parent and its Subsidiaries as of the date thereof and (ii) the consolidated results of operations and cash flows of Parent and its Subsidiaries for the fiscal period covered thereby. The Parent Interim Statements have been prepared in accordance with U.S. GAAP applied on a basis consistent with the Parent Audited Financials, except that the Parent Interim Statements do not contain footnotes and are subject to normal year-end adjustments.

Section 4.8 Accounting and Tax Matters. Neither the Parent nor Merger Sub, nor to the knowledge of the Parent, any of the Parent's affiliates has taken or agreed to take any action, nor is the Parent aware of any agreement, plan or other circumstance, that would prevent the Merger from constituting a transaction qualifying as a reorganization under section 368(a) of the Code.

Section 4.9 Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the Merger or the other transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Parent or Merger Sub.

Section 4.10 Litigation. Except as disclosed in Section 4.10 of the Parent Disclosure Letter, there is no Claim pending or, to the Knowledge of the Parent, threatened (either in writing or by a verbal threat that could reasonably be expected to be followed by a written threat) against the Parent or the Merger Sub before any Governmental Entity that could reasonably be expected to result in a Material Adverse Effect on the Parent. The Parent and the Merger Sub are not subject to any outstanding Order.

Section 4.11 Compliance with Laws.

(a) To the Knowledge of the Parent, the Parent and the Merger Sub are in compliance in all material respects with all Laws applicable to its business, operations or assets.

Neither the Parent nor the Merger Sub has received any notice of or been charged with the violation of any Laws. To the Knowledge of the Parent, neither the Parent nor the Merger Sub is under investigation with respect to the violation of any Laws and there are no facts or circumstances which could form the basis for any such violation.

(b) To the Knowledge of the Parent, the Parent and the Merger Sub currently have all Permits which are required for the operation of their respective businesses as presently conducted and as presently intended to be conducted, other than those the failure of which to possess is immaterial (the "Parent Permits"). There are no Claims pending or, to the Knowledge of the Parent, threatened, relating to the suspension, revocation or modification of any Parent Permit.

Section 4.12 Absence of Certain Changes or Events. Since March 31, 2006, there has been no Material Adverse Effect on the Parent and the Parent has no Knowledge of any facts or circumstances that could reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect on the Parent.

Section 4.13 Material Contracts. Each customer contract (other than this Agreement) of Parent and Merger Sub that would be required to be filed as an exhibit to a Registration Statement on Form S-l under the Securities Act if such a Registration Statement were to be filed by the Parent on the date hereof constitutes a valid and legally binding obligation of the Parent or the Merger Sub and, to the Knowledge of the Parent, of the other parties thereto, enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium, or other laws generally affecting creditors' rights and general equitable principles, and is in full force and effect. The Parent and the Merger Sub and, to the Knowledge of the Parent, any other person that is a party thereto, are not in material violation of or in material default under (nor does there exist any condition that with the passage of time or the giving of notice would cause such a material violation of or material default under) any Parent Contract.

Section 4.14 Employee Matters. Neither the Parent nor any of its Subsidiaries is a party to any collective bargaining agreement or other labor union agreements, nor is any such collective bargaining agreement being negotiated, nor are there any employees of the Parent or its Subsidiaries represented by a trade union or a labor organization. No work stoppage, slowdown or labor strike against the Parent or any of its Subsidiaries is pending or, to the Parent's Knowledge, threatened.

Section 4.15 Vote Required. The approval of a majority of holders of the Parent Common Stock is the only vote of the holders of any class or series of the Parent's capital stock necessary (under the certificate of incorporation and by-laws or other organizational documents of the Parent, the DGCL, other applicable Law or otherwise) to adopt this Agreement, the Merger or the other transactions contemplated by this Agreement.

Section 4.16 Full Disclosure. No representation or warranty made by the Parent or Merger Sub pursuant to this Agreement, the Parent Disclosure Letter or any certificate furnished by the Parent or Merger Sub pursuant to this Agreement, contains or will contain at the Effective Time an untrue statement of a material fact or omits or will omit at the Effective Time to state a material fact necessary to make the statements made herein or therein, in the context in which made, not misleading.

ARTICLE V

COVENANTS

Section 5.1 Interim Operating Covenants. Except as contemplated by this Agreement or with the prior written consent of the Parent, during the period from the date of this Agreement until the earlier of the termination of this Agreement in accordance with its terms or the Effective Time, the Company and its Subsidiaries will conduct their operations in the ordinary course of business consistent with past practice and, to the extent consistent therewith, with no less diligence and effort than would be applied in the absence of this Agreement, will use its reasonable best efforts to preserve intact the business organization of the Company and its Subsidiaries, to keep available the services of the present officers and key employees of the Company and its Subsidiaries, and to preserve the good will of customers, suppliers and all other persons having business relationships with the Company and its Subsidiaries. Without limiting the generality of the foregoing, and except as otherwise contemplated by this Agreement or disclosed in Section 5.1 of the Company Disclosure Letter, prior to the Effective Time, the Company and each of its Subsidiaries will not, without the prior written consent of the Parent:

(a) except as required by applicable Law, adopt any amendment to the certificate of incorporation, by-laws or other equivalent organizational documents of the Company;

(b) issue, reissue, sell or pledge, or authorize the issuance, reissuance, sale or pledge of (i) additional shares of capital stock or other equity securities of any class, or securities convertible into capital stock or other equity securities or any rights, warrants or options to acquire any such convertible securities or capital stock or other equity securities, other than the issuance of Company Common Stock, in accordance with the terms of the instruments governing such issuance on the date hereof or pursuant to the exercise of Company Stock Options outstanding on the date hereof, or (ii) any other securities in respect of, in lieu of, or in substitution for, Company Common Stock outstanding on the date hereof;

(c) declare, set aside, make or pay any dividend or other distribution (whether in cash, securities or property or any combination thereof) in respect of any class or series of its capital stock or other equity interests.

(d) directly or indirectly, split, combine, subdivide, reclassify or redeem, retire, purchase or otherwise acquire, or propose to redeem, retire or purchase or otherwise acquire, any shares of its capital stock or other equity interests;

(e) increase the salary, wages, benefits, bonuses or other compensation payable or to become payable to current or former directors, officers or employees of the Company, except for increases required under employment agreements existing on the date hereof and disclosed to Parent, (ii) enter into any employment, change of control or severance agreement with, or any bonus, profit sharing, thrift, stock option, restricted stock, pension, retirement, welfare, deferred compensation, employment, change of control, termination, severance or other benefit plan, agreement, policy or arrangement for the benefit of, any current or former director, officer or employee of the Company, (iii) amend or otherwise alter any Plan with or for the benefit of any current or former director, officer or employee of the Company, (iv) exercise any discretion to accelerate the vesting or payment of any compensation or benefit under any Plan, (v) grant any new awards under any Plan or (vi) take any action to fund the payment of compensation or benefits under any Plan except, in the case of clauses (i) and (vi), in the ordinary course of business, consistent with past practices with respect to employees of the Company who are not officers or directors, or as may be required by the terms of any such plan, agreement, policy or arrangement in effect on the date hereof and disclosed to Parent or to comply with applicable Law;

(f) acquire, sell, lease, license, transfer, pledge, encumber, grant or dispose of (whether by merger, consolidation, purchase, sale or otherwise) any assets or any Intellectual Property of the Company (other than the disposition of used or excess equipment and the purchase of supplies and equipment, in either case in the ordinary course of business consistent with past practice), or enter into any material commitment or transaction outside the ordinary course of business;

(g) (i) incur, assume any long term Debt or incur or assume any short term Debt (including, in either case, by issuance of debt securities), (ii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other Person except in the ordinary course of business consistent with past practice, or (iii) make any loans, advances or capital contributions to, or investments in, any other Person, other than ordinary course advances to employees consistent with past practice;

(h) terminate, cancel or request any material change in, or agree to any material change in any Material Contract or enter into any Material Contract, in each case other than in the ordinary course of business consistent with past practice, or make or authorize any capital expenditure, other than capital expenditures provided for in the Company's budget (a copy of which budget has been provided to the Parent);

(i) take any action with respect to accounting policies or procedures, other than actions in the ordinary course of business and consistent with past practice or as required pursuant to applicable Law or U.S. GAAP;

(j) waive, release, assign, settle or compromise any material rights, claims or litigation;

(k) pay, discharge or satisfy any material claim, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise) other than in the ordinary course of business consistent with past practice;

(1) enter into any agreement or arrangement that materially limits or otherwise restricts the Company or any successor thereto, or that would, after the Effective

Time, limit or restrict the Surviving Corporation and its Affiliates (including the Parent) or any successor thereto, from engaging or competing in any line of business or in any geographic area;

(m) establish any new Plan or modify any Plan except as required by Law or this Agreement;

(n) make any Tax election or settle or compromise any material federal, state, local or foreign Tax liability; or

(o) authorize or enter into any formal or informal written or other agreement or otherwise make any commitment to do any of the foregoing.

Section 5.2 Certain Actions. Subject to the terms and conditions provided in this Agreement, each of the Parties to this Agreement agrees to take, or cause to be taken, all action, and to do, or cause to be done, and to assist and cooperate with the other parties to this Agreement in doing, as soon as practicable, all things necessary, proper or advisable to ensure that the conditions set forth in Article VI are satisfied and to consummate and make effective the transactions contemplated by this Agreement. If at any time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement, including the execution of additional instruments, the proper officers and directors of each party to this Agreement shall take all such necessary or desirable action.

Section 5.3 Notification of Certain Matters. The Parent and the Company shall promptly notify each other of (a) the occurrence or non-occurrence of any fact or event that could reasonably be expected (i) to cause any representation or warranty contained in this Agreement to be untrue or inaccurate in any material respect at any time from the date of this Agreement to the Effective Time, (ii) to cause any covenant, condition or agreement hereunder not to be complied within any material respects or satisfied in all material respects or (iii) to result in, in the case of Parent, a Material Adverse Effect on the Parent; and, in the case of the Company, a Material Adverse Effect on the Company, (b) any failure of the Company or the Parent, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder in any material respect; provided, however, that no such notification shall affect the representations or warranties of any party or the conditions to the obligations of any party hereunder, (c) any notice or other material communications from any Governmental Entity in connection with the transactions contemplated by this Agreement and (d) the commencement of any suit, action or proceeding that seeks to prevent, seeks damages in respect of, or otherwise relates to the consummation of the transactions contemplated by this Agreement.

Section 5.4 Company Stockholders Meeting. The Company shall, if requested by Parent, call and hold a meeting of the Company’s stockholders (the “Company Stockholders Meeting”) as promptly as practicable after the signing of this Agreement for the purpose of voting upon the adoption of this Agreement. Notwithstanding the foregoing, the Company shall be deemed to have fulfilled the foregoing requirements if its stockholders act by written consent in lieu of such meeting pursuant to Section 228 of the DGCL. The Company shall use its reasonable best efforts (through its agents or otherwise) to solicit from its stockholders proxies or written consents in favor of the adoption of this Agreement, and shall take all other action necessary or advisable to secure the Requisite Company Vote.

Section 5.5 Access to Information; Confidentiality.

(a) From the execution of this Agreement to the Effective Time, the Company shall (and shall cause its Subsidiaries to) (i) provide to the Parent (and its officers, directors, employees, accountants, consultants, legal counsel, financial advisors, investment bankers, agents and other representatives (collectively, "Advisors")) access during business hours upon prior notice to the officers, employees, agents, properties, offices and other facilities of the Company and its Subsidiaries and to the books and records thereof, and (ii) furnish promptly such information concerning the business, properties, Contracts, assets, liabilities, personnel and other aspects of the Company and its Subsidiaries as the Parent or its Advisors may reasonably request. No investigation conducted under this Section 5.5 shall affect or be deemed to modify any representation or warranty made in this Agreement.

(b) The parties shall comply with, and shall cause their respective Representatives to comply with, all of their respective obligations under the Confidentiality Agreement, dated October 31, 2005 (the "Confidentiality Agreement"), between the Parent and the Company with respect to the information disclosed under this Section 5.5.

Section 5.6 Plan of Reorganization. This Agreement is intended to constitute a "plan of reorganization" within the meaning of section 1.368-2(g) of the income tax regulations promulgated under the Code. From and after the date of this Agreement and until the Effective Time, each party to this Agreement shall use its reasonable best efforts to cause the Merger to qualify, and will not, without the prior written consent of the parties to this Agreement, knowingly take any actions or cause any actions to be taken that could prevent the Merger from qualifying as a reorganization under the provisions of section 368(a) of the Code. Following the Effective Time, and consistent with any such consent, none of the Surviving Corporation, the Parent or any of their affiliates shall knowingly take any action or knowingly cause any action to be taken that would cause the Merger to fail to so qualify as a reorganization under section 368(a) of the Code.

Section 5.7 Public Announcements. Prior to the Effective Time, neither the Company nor the Parent, nor the Representative or any Company Holder, shall issue any press release or otherwise make any public statements with respect to this Agreement or any of the transactions contemplated by this Agreement without the prior approval of the other party, which approval will not be unreasonably withheld or delayed, unless, in the sole judgment of the Company or the Parent, as applicable, such public announcement is otherwise required by applicable Law provided that, to the extent required by applicable Law, the party intending to make such release shall use its commercially reasonable efforts consistent with such applicable Law to consult with the other party with respect to the timing and content thereof.

Section 5.8 Expenses. Whether or not the Merger is consummated, all Expenses incurred in connection with this Agreement and the Merger and the other transactions contemplated by this Agreement shall be paid by the party incurring such Expense. For purposes of this Agreement, "Expenses" consist of all out-of-pocket expenses (including all fees and expenses of counsel, accountants, investment bankers, experts and consultants to a party to this Agreement and its affiliates) incurred by a party or on its behalf in connection with or related to the authorization, preparation, negotiation, execution and performance of this Agreement, the solicitation of stockholder approval and all other matters related to the closing of the transactions contemplated by this Agreement. Without limiting the foregoing, the Company's stockholders shall be solely responsible for all fees and expenses owed to any counsel, brokers, finders and investment bankers retained by the Company in connection with the transactions contemplated by this Agreement and if any such fees and expenses have not been paid in full prior to the Effective Time, any such amounts shall be reconciled at the time the Net Working Capital Statement is finalized under Section 2.5.

Section 5.9 Takeover Statutes. If any Takeover Statute is or may become applicable to the Merger or the other transactions contemplated by this Agreement, each of the Parent, Merger Sub and the Company and its respective board of directors shall grant such approvals and take such actions as are necessary so that such transactions may be consummated as promptly as practicable on the terms contemplated by this Agreement and otherwise act to eliminate or minimize the effects of such statute or regulation on such transactions.

Section 5.10 Tax Matters.

(a) During the period from the date of this Agreement to the Effective Time, the Company and its Subsidiaries shall:

(i) Prepare, in the ordinary course of business and consistent with past practice (except as otherwise required by law), and timely file all Tax Returns required to be filed by it (or them) on or before the Closing Date ("Post-Signing Returns").

(ii) Consult with Parent with respect to all Post-Signing Returns and deliver drafts of such Post-Signing Returns to Parent no later than ten (10) Business Days prior to the date (including extensions) on which such Post-Signing Returns are required to be filed.

(iii) Fully and timely pay all Taxes due and payable in respect of such Post-Signing Returns that are so filed.

(iv) Properly reserve (and reflect such reserve in their books and records and financial statements), in accordance with past practice and in the ordinary course of business for all Taxes payable by them for which no Post-Signing Return is due prior to the Effective Time in a manner consistent with past practice.

(v) Promptly notify Parent of any federal, state, local or foreign income or franchise and any other Claim pending or threatened against or with respect to the Company or any of its Subsidiaries in respect of any Tax matter, including Tax liabilities and refund claims, and not settle or compromise any such Tax matter or Tax Claim without Parent's consent.

(vi) Not make or revoke any Tax election or adopt or change a tax accounting method without Parent's consent.

(vii) Terminate all Tax indemnification, allocation or sharing agreements or other arrangements with respect to Taxes to which the Company or any of its Subsidiaries is a party such that there is no further liability thereunder.

(b) No action taken by the Surviving Corporation, Parent or any of their respective affiliates pursuant to this Agreement or at the request of the Representative shall be deemed to violate Section 5.6 of this Agreement. The foregoing sentence is not intended to limit the force or scope of Section 4.8 of this Agreement or any representation of Parent in any certificate delivered to the Company or its counsel in connection with this Agreement.

Section 5.11 Acquisition Proposals. From the date of this Agreement until the Effective Time, the Company shall, and shall cause its Subsidiaries and each of their respective directors, officers, employees, agents, attorneys, accountants, investment bankers and other representatives (collectively, the "Company Representatives"), to immediately cease all existing discussions, negotiations or other action with any other Person conducted heretofore with respect to any Acquisition Proposal. From the date of this Agreement until the Effective Time, the Company shall not, and shall cause its Subsidiaries and each of the Company Representatives not to, (i) solicit, initiate, knowingly facilitate or knowingly encourage, directly or indirectly, the making or submission of any Acquisition Proposal, (ii) enter into any letter of intent, agreement, arrangement or understanding with respect to any Acquisition Proposal, or agree to approve or endorse any Acquisition Proposal or enter into any agreement, arrangement or understanding that would require the Company to abandon, terminate or fail to consummate the Merger or any other transaction contemplated by this Agreement, (iii) initiate or participate in any way in any discussions or negotiations with, or furnish or disclose any information to, any Person (other than the Parent) in furtherance of any proposal that constitutes, or could reasonably be expected to lead to, any Acquisition Proposal, or (iv) knowingly facilitate or knowingly further in any other manner any inquiries or the making or submission of any proposal that constitutes, or could reasonably be expected to lead to, any Acquisition Proposal. The term "Acquisition Proposal" means an inquiry, proposal, indication of interest or offer relating to any (i) acquisition or sale of (1) 20% or more of the consolidated assets of the Company and its Subsidiaries, or (2) 20% or more (in number or voting power) of the equity securities of the Company (or any of its Subsidiaries, as applicable), (ii) tender offer or exchange offer that, if consummated, would result in any Person beneficially owning 20% or more (in number or voting power) of the equity securities of the Company (or a Company Subsidiary as applicable), or (iii) merger, consolidation, business combination, reorganization, recapitalization, liquidation, dissolution or other similar transaction involving the Company or any of its Subsidiaries, other than the transactions contemplated by this Agreement.

Section 5.12 Surviving Corporation Charter and By-Laws. The certificate of incorporation and by-laws of the Surviving Corporation shall contain provisions with respect to indemnification, exculpation and advancement of expenses that are at least as favorable to the indemnified parties thereunder as those contained in the certificate of incorporation and by-laws of the Company in effect on the date of this Agreement.

Section 5.13 Continuing Employee Matters.

(a) Until January 1, 2007, Parent shall arrange for each participant in the Plans (the "Company Participants") (including all eligible dependents) who becomes a Parent employee (or an employee of any Parent subsidiary) at the Effective Time to be eligible for benefits that, in the aggregate, are not materially less favorable than those benefits provided by the Company or its Subsidiaries, as applicable, as of the date hereof (but specifically excluding any benefits under any Plan that is a stock option or other equity-based award plan). Each Company Participant shall, to the extent permitted by Law and applicable Tax qualification requirements, and subject to any applicable break in service or similar rule, receive credit (for eligibility to participate and vesting but not for benefit accrual) under Parent employee benefit plans for years of service with the Company (and its subsidiaries and predecessors) prior to the Effective Time (except where doing so would cause a duplication of benefits). If applicable, Parent shall, to the extent reasonably feasible, (x) cause any and all pre-existing condition (or actively at work or similar) limitations, eligibility waiting periods and evidence of insurability requirements under any group health plans to be waived with respect to such Company Participants and their eligible dependents in accordance with applicable Laws and (y) provide them with credit for any co-payments, deductibles, and offsets (or similar payments) made during the plan year including the Effective Time for the purposes of satisfying any applicable deductible, out-of-pocket, or similar requirements under any Parent employee benefit plans or programs in which they are eligible to participate after the Effective Time.

(b) The Company shall provide to the Parent forms of any option award, restricted stock or bonus agreement to be used in connection with the grants of any award under any of the Plans to be executed any time after the date hereof. Parent shall have the opportunity to review and comment on such forms before any such forms are executed.

(c) Parent shall make available 86,806 shares of Parent Company Stock for the purpose of granting options to employees of the Surviving Corporation and its Subsidiaries who are hired or promoted during the three years next following the Effective Time. The President of the Surviving Corporation shall make recommendations to the Board of Directors of the Parent from time to time respecting the granting of such options and the granting thereof shall be subject to the approval of such Board of Directors. It is the non-binding intention of the parties that such grants shall be made approximately ratably over the three-year period and that approximately half of the grants shall be made over the first year of the three-year period. For the avoidance of doubt the Managing Principal of the Surviving Corporation shall not be eligible to receive any of the options referred to in this Section 5.13(c).

Section 5.14 Guarantees. The Parent shall indemnify Sandeep Tyagi and Vijay Parekh for any Loss arising by reason of their payment of any amounts pursuant to any guaranty set forth in Section 5.15 of the Company Disclosure Letter.

Section 5.15 Stub Period Financial Statements. Tyagi and the Major Stockholders shall promptly assist the Company in preparing financial statements for the period April 1, 2006 to the Effective Date.

Section 5.16 iTouchpoint Escrow. In connection with that certain Stock Purchase Agreement dated as of September 23, 2005, by and among Rajkumar Koneru, Clearmist Ltd., iTouchpoint Technologies, LLC and Inductis Group, LLC, predecessor in interest to the Company (the "iTouchpoint Agreement"), Lowenstein Sandler, PC, counsel to the Company, is holding in escrow $100,000 (the "iTouchpoint Escrow"). The iTouchpoint Escrow is being held by Lowenstein Sandler PC as part of the Inductis Group, LLC's guaranty of the payment of $100,000 of the purchase price payable to Rajkumar Koneru and Clearmist Ltd. under the iTouchpoint Agreement, such payment to be made if and when certain conditions set forth in the iTouchpoint Agreement are satisfied. Any amounts received by the Surviving Corporation in payment of the iTouchpoint Escrow will be promptly remitted by the Surviving Corporation to the Company Holders pro rata in accordance with the Allocation Schedule. The Representative shall, and the Surviving Corporation shall not, have the right to negotiate any release, compromise or modification of the iTouchpoint Escrow or any documentation relating thereto, and the Representative shall have, and the Surviving Corporation shall not, have, the right to determine whether the Surviving Corporation shall enter into any amendment or modification thereof or to accept any payment other than in cash with respect to the iTouchpoint Escrow. Without the prior written consent of the Representative, the Surviving Corporation shall not transfer the iTouchpoint Escrow to any Person or exert any efforts to assert any rights under the iTouchpoint Escrow.

ARTICLE VI

CONDITIONS

Section 6.1 Conditions to Each Party's Obligation to Effect the Merger. The respective obligation of each party to consummate the other transactions contemplated by this Agreement to be consummated on the Closing Date is subject to the satisfaction or waiver at or prior to the Effective Time of each of the following conditions:

(a) Requisite Company Approval. This Agreement and the consummation of the Merger shall have been duly adopted by holders of outstanding Company Common Stock by the Requisite Company Vote.

(b) Requisite Parent Approval. This Agreement and the consummation of the Merger shall have been duly adopted by a majority of holders of outstanding Parent Common Stock.

(c) Consents. All consents, approvals and actions of any Governmental Entity required to permit the consummation of the Merger and the other transactions contemplated by this Agreement shall have been obtained or made, free of any condition that could reasonably be expected to result in a Material Adverse Effect on the Parent or a Material Adverse Effect on the Company.

(d) Injunctions. No court or Governmental Entity of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any Law, order, injunction or decree (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins or otherwise prohibits consummation of the Merger or the other transactions contemplated by this Agreement.

Section 6.2 Conditions to Obligation of the Parent and Merger Sub. The obligation of the Parent and Merger Sub to consummate the transactions contemplated by this Agreement to be consummated on the Closing Date are also subject to the satisfaction or waiver by the Parent at or prior to the Effective Time of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Company or any of the Major Stockholders set forth in this Agreement that are qualified as to materiality or Material Adverse Effect shall be true and correct, and the representations and warranties of the Company set forth in this Agreement that are not so qualified shall be true and correct in all material respects, in each case as of the date of this Agreement and as of the Closing Date, as though made on and as of the Closing Date, except to the extent the representation or warranty is expressly limited by its terms to another date, and the Parent shall have received a certificate (which certificate may be qualified by Knowledge (i) to the same extent as the representations and warranties of the Company contained in this Agreement are so qualified and (ii) as to the representations and warranties of the Major Stockholders) signed on behalf of the Company by an executive officer of the Company as to the Company.

(b) Performance of Obligations of the Company. The Company and the Major Stockholders shall have performed in all material respects all obligations required to be performed by them under this Agreement at or prior to the Closing Date, and the Parent shall have received a certificate signed on behalf of the Company by an executive officer of the Company as to the Company.

(c) Consents Under Agreements. The Company shall have obtained the consent, approval or waiver of each Person whose consent, approval or waiver shall be required in order to consummate the transactions contemplated by this Agreement.

(d) Key Employees. None of the persons who have signed Employment Agreements (the “Key Employees”) shall have advised the Managing Principal of the Company or the Chief Financial Officer of the Company or any of its Subsidiaries that he does not intend to remain with the Company pursuant to the terms of such Employment Agreement.

(e) No Dissenting Shares. None of the Company Holders shall have delivered notice of their exercise of (or intent to exercise) appraisal rights in accordance with the provisions of Section 262 of the DGCL.

(f) Employment Agreements. The Employment Agreements shall have been executed and delivered by each of the parties thereto (other than Parent).

(g) Stockholders Agreement. The Stockholders Agreement shall have been executed and delivered by each of the parties (other than Parent) thereto and shall be in full force and effect.

(h) Legal Opinions. The Parent shall have received (a) the opinion of Lowenstein, Sandler PC, counsel to the Company, with respect to the matters set forth on Exhibit G annexed hereto, (b) the opinion of Giordano, Halleran & Ciesla, special counsel to certain of the Major Stockholders, with respect to the matters set forth on Exhibit H annexed hereto, (c) the opinion of Richards, Layton & Finger, special counsel to the Company, with respect to the matters set forth on Exhibit I annexed hereto, and (c) the opinion of J. Sager Associates, special counsel to the Company, with respect to the matters set forth on Exhibit J annexed hereto, in each case in form and substance reasonably satisfactory to the Parent.

(i) FIRPTA Certificate. The Company shall have furnished Parent with a certificate stating that the Company is not and has not been a United States real property holding corporation, dated as of the Closing Date and in form and substance required under Treas. Reg. § 1.897-2(h).

(j) Financials. The Company shall have furnished Parent with (i) the 2005 Audited Financials and (ii) the SAS 100 review for the first quarter of 2006, in form and substance reasonably satisfactory to the Parent.

(k) Company Holder Agreement. Each Company Holder shall have entered into the Company Holder Agreement, in the form attached hereto as Exhibit K.

(l) Release of Obligations. The Company shall have furnished to Parent evidence reasonably satisfactory to the Parent that the Company is released from all obligations owed by it under (i) the Guaranty Agreement dated August 10, 2005 between Inductis Group, LLC and Vijay Parekh; (ii) the Letter of Intent dated August 10, 2005 between Clearmist Ltd., iTouchpoint, Inductis Group, LLC and Vijay Parekh; (iii) the Clearmist Stock Purchase Agreement dated September 23, 2005; (iv) the Representation, Warranty and Indemnity Agreement between iTouchpoint, Clearmist, Rajkumar Koneru, Vijay Parekh and Inductis Group, LLC; (v) the iTouchpoint LOI and (vi) the iTouchpoint APA. The Company shall also have furnished to Parent evidence reasonably satisfactory to Parent that the iTouchpoint Loans have been contributed to iTouchpoint Services LLC and the interests therein distributed to the Company Holders.

Section 6.3 Conditions to Obligation of the Company. The obligation of the Company to effect the Merger and consummate the other transactions contemplated by this Agreement to be consummated on the Closing Date is also subject to the satisfaction or waiver by the Company at or prior to the Effective Time of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Parent and Merger Sub set forth in this Agreement that are qualified as to materiality or Material Adverse Effect shall be true and correct, and the representations and warranties of the Parent set forth in this Agreement that are not so qualified shall be true and correct in all material respects, in each case as of the date of this Agreement and as of the Closing Date, as though made on and as of the Closing Date, except to the extent the representation or warranty is expressly limited by its terms to another date, and the Company shall have received a certificate (which certificate may be qualified by knowledge to the same extent as the representations and warranties of the Parent contained in this Agreement are so qualified) signed on behalf of the Parent by an executive officer of the Parent to such effect.

(b) Performance of Obligations of the Parent and Merger Sub. The Parent shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing Date, and the Company shall have received a certificate signed on behalf of the Parent and Merger Sub by an executive officer of the Parent to such effect.

(c) Employment Agreements. The Employment Agreements shall be in full force and effect (other than by reason of a Company Holder failing to enter into such agreement).

(d) Stockholders Agreement. The Stockholders Agreement shall have been executed and delivered by each of the parties thereto (other than a Company Holder) and shall be in full force and effect.

(e) Legal Opinion. The Company shall have received the opinion of Paul, Weiss, Rifkind, Wharton & Garrison LLP, special counsel to the Parent, with respect to the matters set forth on Exhibit L annexed hereto, in form and substance reasonably satisfactory to the Company.

ARTICLE VII

TERMINATION

Section 7.1 Termination. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, notwithstanding any requisite approval and adoption of this Agreement, as follows:

(a) by mutual written consent of the Parent and the Company;

(b) by either the Parent or the Company, if the Effective Time shall not have occurred on or before 11:59 p.m. New York City time on June 30, 2006 (the "Final Date"); provided, however that (i) a later date may be agreed upon in writing by the parties hereto and (ii) that the right to terminate this Agreement under this Section 7.1(b) shall not be available to any party whose failure to fulfill any obligation under this Agreement shall have been the cause of or resulted in, the failure of the Effective Time to occur on or before such date;

(c) by either the Parent or the Company, if any Order preventing the consummation of the Merger shall have been entered by any court of competent jurisdiction or Governmental Entity and shall have become final and nonappealable;

(d) by the Parent, if this Agreement shall fail to receive the Requisite Company Vote within two (2) Business days of the execution and delivery of this Agreement;

(e) by the Company, if this Agreement shall fail to receive the approval of a majority of holders of Parent Common Stock within two (2) Business Days of the execution and delivery of this Agreement;

(f) by the Parent, if the Company or any of the Major Stockholders shall have breached (and failed to cure during any Applicable Cure Period) any of its or his representations, warranties, covenants or agreements set forth in this Agreement (or if any of the representations or warranties of the Company or any of the Major Stockholders set forth in this Agreement shall fail to be true and correct), which breach or failure would (if it occurred or was continuing as of the Closing Date) give rise to the failure of a condition set forth in Section 6.2(a) or Section 6.2(b); provided, however, that if such breach or failure is curable by the Company through the exercise of its commercially reasonable efforts within thirty (30) days (the "Cure Period"), then the Parent may not terminate this Agreement under this Section 7.1(e) if such breach is cured prior to the expiration of the Cure Period or prior to the expiration of the Cure Period, provided that the Company or the Major Stockholders as applicable, during the Cure Period, continues to exercise commercially reasonable efforts to cure such breach or failure; and

(g) by the Company, if the Parent shall have breached (and failed to cure during any Applicable Cure Period) any of its representations, warranties, covenants or agreements set forth in this Agreement (or if any of the representations or warranties of the Company set forth in this Agreement shall fail to be true and correct), which breach or failure would (if it occurred or was continuing as of the Closing Date) give rise to the failure of a condition set forth in Section 6.3(a) or Section 6.3(b); provided, however, that if such breach or failure is curable by the Parent through the exercise of its commercially reasonable efforts within the Cure Period, then the Company may not terminate this Agreement under this Section 7.1(f) if such breach is cured prior to the expiration of the Cure Period or prior to the expiration of the Cure Period, provided that the Parent, during the Cure Period, continues to exercise commercially reasonable efforts to cure such breach or failure.

Section 7.2 Effect of Termination. In the event of termination of this Agreement pursuant to Section 7.1, this Agreement shall forthwith become void, there shall be no liability under this Agreement on the part of the Parent, Merger Sub, the Company, the Representative or the Major Stockholders and all rights and obligations of each party to this Agreement shall cease; provided, however, that (i) nothing in this Agreement shall relieve any party from liability for the willful breach of any of its representations and warranties or the willful breach of any of its covenants or agreements set forth in this Agreement and (ii) the provisions of Section 5.4(b) (Confidentiality), Section 5.7 (Expenses), this Section 7.2 and Article IX shall remain in full force and effect and survive any termination of this Agreement. Notwithstanding any provision herein to the contrary, if this Agreement is terminated by the Parent or the Company (in either case, the "Terminating Party") due to the nonsatisfaction of one or more conditions to the Terminating Party's obligations under this Agreement as a result of the other party's failure to comply with any provision of this Agreement that is caused by a breach of the other party, the Terminating Party's right to pursue all legal remedies for breach of contract and damages will also survive such termination unimpaired.

ARTICLE VIII

SURVIVAL; INDEMNIFICATION

Section 8.1 Survival. Notwithstanding any knowledge of facts determined or determinable by any party to this Agreement pursuant to any investigation or right of investigation, each party has the right to rely fully upon the representations, warranties, covenants and agreements of each other party contained in this Agreement. All such representations, warranties, covenants and agreements shall survive the Closing. All representations and warranties contained in this Agreement shall terminate and expire at 5:00 p.m., New York City time, on the first anniversary of the Closing Date; provided, however, that the representations and warranties contained in (a) 3.3 (Capitalization; Ownership), 3.4 (Authority), 3.10(b) (Liabilities; iTouchpoint), 3.20 (Brokers), 3.21 (Certain Statutes), 3.31 (iTouchpoint Receivable); 4.3 (Capitalization), 4.4 (Authority) and 4.9 (Brokers) shall survive without limitation, except all representations and warranties of Parent shall terminate upon the consummation of the Company's initial public offering and (b) Sections 3.11 (to the extent related to Benefit Plans) (Employee Benefit Plans) and 3.18 (Taxes) shall terminate and expire on the date which is 60 days after the date upon which the liability to which any claim based upon, arising out of or otherwise in respect of any inaccuracy or breach of any such representation or warranty may relate is barred by all applicable statutes of limitations (including all periods of extension, whether automatic or permissive). Claims asserted in good faith with reasonable specificity (to the extent known at such time) and in writing prior to such date shall not thereafter be barred by the expiration of the relevant representation or warranty to the extent that it relates to such Claims. Except as otherwise expressly provided in this Agreement, the covenants and agreements contained in this Agreement shall survive the execution and delivery of this Agreement and the consummation of the transactions contemplated thereby.

Section 8.2 Obligation of the Company Holders to Indemnify. Subject to the limitations contained in Section 8.3, from and after the Closing, each of the Company Holders shall indemnify, defend and hold harmless the Parent and its Subsidiaries (including the Surviving Corporation), their Affiliates and their respective directors, officers, employees, advisors, successors and assigns (collectively, the "Parent Indemnified Parties") from and against any and all claims, losses, liabilities, damages, deficiencies, judgments, assessments, fines, settlements, costs or expenses (including interest, penalties and fees, expenses and disbursements of attorneys, experts, personnel and consultants) ("Losses") based upon, arising from or relating to:

(a) any breach of any representation or warranty of the Company or a Major Stockholder contained in this Agreement;

(b) any breach of any covenant or agreement of the Company or a Major Stockholder contained in this Agreement;

(c) enforcing the indemnification provided for in this Section 8.2;

(d) any Loss in any way relating to or arising out of iTouchpoint or the iTouchpoint Asset Purchase Agreement; and

(e) any claims by any Company Holder or the holder of any Company Options relating to or arising under this Agreement other than claims relating to non-performance by the Parent of its obligations hereunder.

Section 8.3 Matters Pertaining to Indemnification by the Company Holders. The indemnification provided for in Section 8.2 shall be subject to the following limitations:

(a) All indemnification obligations of the Company Holders under Section 8.2 may be satisfied, at the option of the Company Holder in cash or by the transfer to Parent of shares of Parent Common Stock free and clear of all Liens valued at the Fair Market Value thereof on the day immediately prior to the day on which the claim for indemnification is made (and in the case of holders of Company Options, by cancellation of a sufficient number of options to purchase Parent Common Stock measured by the difference between the Fair Market Value of Parent Company Stock on the day immediately prior to the day on which the claim for indemnification is made and the exercise price of such options). The indemnification obligations of the Company Holders under Section 8.2 shall be several and not joint. If any Company Holder shall refuse to honor its indemnification obligations hereunder, Parent may in addition to its other remedies at law, cancel the number of shares of Parent Common Stock of such Company Holder that such Company Holder is obligated to transfer pursuant to this Article VIII.

(b) The Parent Indemnified Parties shall not be entitled to receive any indemnification payments under Section 8.2(a) in connection with the breach of any representation or warranty, except those based upon, arising out of or otherwise in respect of Sections 3.1 (Organization and Qualification), 3.2 (Certificate of Incorporation and By-Laws), 3.3 (Capitalization; Ownership), 3.4 (Authority), 3.10(b) (Liabilities; iTouchpoint), 3.11 (Employee Benefit Plans), 3.18 (Taxes); 3.20 (Brokers), 3.21 (Certain Statutes) and 3.31 (iTouchpoint Receivable) (the "Basket Exclusions"); until the aggregate amount of Losses incurred by the Parent Indemnified Parties, exclusive of the Basket Exclusions, exceeds $200,000 (the "Basket Amount"), whereupon the Parent Indemnified Parties shall be entitled to receive indemnity payments equal to the amount by which such aggregate amount of Losses exceeds the Basket Amount.

(c) Notwithstanding the provisions of Section 8.3(b), the Parent Indemnified Parties shall be entitled to receive any indemnification payments in respect of the Basket

Exclusions without regard to the individual or aggregate amounts thereof and without regard to whether the aggregate of all other indemnification payments shall have exceeded, in the aggregate, the Basket Amount.

(d) The maximum amount of indemnification payments which the Parent Indemnified Parties shall be entitled to receive under Section 8.2 in connection with all breaches of representations or warranties (excluding those based upon, arising out of or otherwise in respect of, the Basket Exclusions), shall not exceed an amount equal to $5.0 million plus 50% of any Earnout Payment (the "Indemnity Cap").

(e) For purposes of determining the amount of any Loss with respect to any breach of any representation and warranty, each representation, warranty, covenant and agreement referred to therein shall be considered without regard to any limitation or qualification as to materiality or material adverse effect (or similar limitation or qualification concept) set forth in such representation, warranty, covenant and agreement.

(f) Indemnification of a Parent Indemnified Party shall be limited to the amount of any Loss that remains after deducting therefrom any insurance proceeds or any indemnity, contribution or other similar payment actually recovered (net of out-of-pocket costs incurred in connection with such recovery) by a Parent Indemnified Party from any insurer or third party with respect thereto; provided, that the Parent Indemnified Parties shall be obligated to seek such recovery only to the extent it is commercially reasonable to do so.

Section 8.4 Obligation of Parent to Indemnify. Subject to the limitations contained in Section 8.5, from and after the Closing, Parent shall indemnify, defend and hold harmless the Company Holders, their Affiliates and their respective advisors, successors and assigns (collectively, the "Holders Indemnified Parties") from and against all Losses based upon, arising from or relating to:

(a) any breach of any representation or warranty of Parent or Merger Sub contained in this Agreement;

(b) any breach of any covenant or agreement of Parent or Merger Sub contained in this Agreement; or

(c) enforcing the indemnification provided for in this Section 8.4.

Section 8.5 Matters Pertaining to Indemnification by Parent. The indemnification provided for in Section 8.4 shall be subject to the following limitations:

(a) All indemnification obligations of the Parent under Section 8.4 respecting Losses that represent an out-of-pocket loss by a Holder Indemnified Party shall be satisfied in cash and all other Losses may be satisfied, at the option of the Parent in cash or by the transfer of shares of Parent Common Stock free and clear of all Liens valued at the Fair Market Value thereof on the day immediately prior to the day on which the claim for indemnification is made. All obligations of Parent under Section 8.4 shall terminate upon the consummation of the initial public offering of Parent, except respecting matters as to which a Claims Notice was delivered prior to such consummation.

(b) The Holder Indemnified Parties shall not be entitled to receive any indemnification payments under Section 8.4(a) in connection with the breach of any representation or warranty, except those based upon, arising out of or otherwise in respect of Sections 4.1 (Organization and Qualification), 4.2 (Certificate of Incorporation and By-Laws), 4.3 (Capitalization), 4.4 (Authority) and 4.9 (Brokers) (the "Parent Basket Exclusions") until the aggregate amount of Losses incurred by the Holder Indemnified Parties, exclusive of the Parent Basket Exclusions, exceeds the Basket Amount, whereupon the Holder Indemnified Parties shall be entitled to receive indemnity payments equal to the amount by which such aggregate amount of Losses exceeds the Basket Amount.

(c) Notwithstanding the provisions of Section 8.5(b), the Holder Indemnified Parties shall be entitled to receive any indemnification payments in respect of the Basket Exclusions without regard to the individual or aggregate amounts thereof and without regard to whether the aggregate of all other indemnification payments shall have exceeded, in the aggregate, the Basket Amount.

(d) The maximum amount of indemnification payments which the Holder Indemnified Parties shall be entitled to receive under Section 8.4 in connection with all inaccuracies or breaches of representations or warranties (excluding those based upon, arising out of or otherwise in respect of, the Basket Exclusions), shall not exceed the Indemnity Cap.

(e) For purposes of determining the amount of any Loss with respect to any breach of any representation and warranty, each representation, warranty, covenant and agreement referred to therein shall be considered without regard to any limitation or qualification as to materiality or material adverse effect (or similar limitation or qualification concept) set forth in such representation, warranty, covenant and agreement.

(f) Indemnification of a Holder Indemnified Party shall be limited to the amount of any Loss that remains after deducting therefrom any insurance proceeds or any indemnity, contribution or other similar payment actually recovered (net of out-of-pocket costs incurred in connection with such recovery) by a Holder Indemnified Party from any insurer or third party with respect thereto; provided, that the Holder Indemnified Parties shall be obligated to seek such recovery only to the extent it is commercially reasonable to do so.

Section 8.6 Procedure for Indemnification,

(a) The party making a claim for indemnification under this Article VIII is referred to as the 'Indemnified Party," and the party against whom such claims are asserted under this Article X is referred to as the "Indemnifying Party." The Representative shall exercise, in accordance with Section 9.6, all rights of the Company Holders as an Indemnifying Party in this Article VIII. All claims by any Indemnified Party under this Article VIII shall be asserted and resolved as follows:

(b) Notice of Asserted Liability. Promptly after receipt by the Indemnified Party of notice of the commencement of any action or proceeding, the assertion of any claim by a third party, the imposition of any penalty or assessment or a claim not involving a third party for which the Indemnified Party seeks to be indemnified that may result in a Loss (each, an

"Asserted Liability"), the Indemnified Party shall give written notice of such Asserted Liability (the "Claims Notice") to the Indemnifying Party. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of their indemnification obligations, except and only to the extent that the Indemnifying Party forfeits rights or defenses by reason of such failure or actually incurs an incremental out-of-pocket expense by reason of such failure. The Claims Notice shall describe the Asserted Liability in reasonable detail, including (i) the representation, warranty, covenant or agreement that is alleged to have been inaccurate or to have been breached, (ii) the basis for such allegation, including the provision of supporting documentation and (iii) if known, the aggregate amount of the Losses for which a claim is being made under this Article VIII or, to the extent that such Losses are not known or have not been incurred at the time such claim is made, an estimate, to be prepared in good faith and accompanied by supporting documentation, of the aggregate potential amount of such Losses.

(c) Non Third Party Claims. If the Claims Notice from the Indemnified Party pertains to an Asserted Liability other than a claim or demand from a third party, then the Indemnifying Party shall have 30 days following receipt of the Claims Notice to make such investigation at the expense of the Indemnifying Party of the Asserted Liability as the Indemnifying Party deems necessary or desirable. For the purposes of such investigation, the Indemnified Party agrees to make available to the Indemnifying Party the information relied upon by the Indemnified Party to substantiate the Asserted Liability. If the Indemnified Party and the Indemnifying Party agree at or prior to the expiration of said 30-day period (or any mutually agreed upon extension thereof) on the validity and amount of such Asserted Liability, the Indemnifying Party shall promptly pay to the Indemnified Party the full amount of the claim in the manner provided for under Section 8.3(a) or Section 8.5(a), as applicable. If the Indemnified Party and the Indemnifying Party do not agree at or prior to the expiration of said 30 day period (as such period may be extended by mutual agreement) on the validity and amount of such Asserted Liability, then each of the Indemnified Party and the Indemnifying Party may pursue the remedies available under this Agreement.

(d) Opportunity to Defend Third Party Claims.

(i) If the Claims Notice pertains to an Asserted Liability that relates to a claim or demand from a third party, the Indemnifying Party may elect to compromise, negotiate or defend, at its own expense and by its own counsel, such Asserted Liability; provided, that the Indemnifying Party shall not have the right to defend or direct the defense of any such Asserted Liability that is asserted directly or indirectly by or on behalf of a Person that is a current or prospective customer or supplier of the Parent, the Surviving Corporation or any of their Subsidiaries.

(ii) If the Indemnifying Party elects to compromise or defend such Asserted Liability, it shall promptly notify the Indemnified Party in writing of its intent to do so, and the Indemnified Party, at the expense of the Indemnifying Party, shall cooperate in the compromise of, or defense against, such Asserted Liability.

(iii) If the Indemnifying Party elects not to compromise or defend such Asserted Liability, fails to promptly notify the Indemnified Party in writing of its election as provided in this Agreement, or otherwise abandons the defense of such Asserted Liability, the Indemnified Party may pay, compromise or defend such Asserted Liability and seek indemnification for any and all Losses based upon, arising from or relating to such Asserted Liability. Notwithstanding the foregoing, neither the Indemnifying Party nor the Indemnified Party shall settle or compromise any Asserted Liability without the prior written consent of the other unless all claimants shall provide an unqualified release to the Indemnifying and Indemnified Parties.

(iv) The Indemnified Party shall have the right to participate in the defense of any Asserted Liability with counsel selected by it and reasonably satisfactory to the Indemnifying Party subject to the Indemnifying Party's right to control the defense. The fees and disbursements of one such counsel (and any necessary local counsel) shall be at the expense of the Indemnified Party; provided, that if in the reasonable opinion of counsel to the Indemnified Party, (A) there are legal defenses available to an Indemnified Party that are different from or additional to those available to the Indemnifying Party or (B) there exists a conflict of interest between the Indemnifying Party and the Indemnified Party, the Indemnifying Party shall be liable for the reasonable legal fees and expenses of one separate counsel to all of the applicable Indemnified Parties (in addition to one local counsel in each jurisdiction that may be necessary or appropriate). If the Indemnifying Party chooses to defend any Asserted Liability, the Indemnified Party shall make available to the Indemnifying Party any personnel, books, records or other documents within its control that are reasonably necessary or appropriate for such defense.

(v) The rights of the Company Holders under this Section 8.6(c) with respect to any Asserted Liability for which the Company Holders are Indemnifying Parties may be exercised solely by the Representative, and, if the Representative elects to defend such Asserted Liability, the Representative shall have sole and exclusive control over such defense as between the Company Holders.

Section 8.7 Tax Indemnification.

(a) From and after the Closing Date, the Company Holders shall indemnify the Parent Indemnified Parties against and hold harmless from any and all Losses suffered or incurred ("Tax Losses") that arise out of, or result from (i) Taxes of the Company with respect to all taxable periods ending on or prior to the Closing Date; (ii) with respect to any Straddle Period, the portion of Taxes payable by or assessed against the Company which are properly allocated to the part of such Straddle Period ending on the Closing Date and (iii) Taxes imposed on a Parent Indemnified Party as a result of (x) a breach of a representation or warranty set forth in Section 3.18 hereof or (y) a breach of a covenant or agreement set forth in Section 5.10 hereof, (iv) Taxes arising out of any transactions entered into in connection with or pursuant to this Agreement; and (v) Taxes imposed on any indemnification payments received by a Parent Indemnified Party under this Agreement.

(b) For purposes of this Agreement, with respect to any taxable year or period beginning before and ending after the Closing Date ("Straddle Period"), an allocation of Taxes shall be made to the part of such Straddle Period which ends on the Closing Date based on (i) the closing of the books method, in the case of income Taxes, (ii) the number of days elapsed between the beginning of such Straddle Period to and including the Closing Date in the case of property Taxes, and (iii) when the relevant transaction occurs, in the case of sales and gross receipts Taxes.

Section 8.8 Sole and Exclusive Remedy. From and after the Closing, the remedies provided in this Article VIII shall be the sole recourse of all parties hereto for all Losses based upon, arising from or relating to any breach of any representation, warranty or covenant contained in this Agreement or in any certificate delivered pursuant to Article VI. Nothing in this Section 8.8 shall limit any Person's right to seek and obtain any equitable relief to which any Person shall be entitled or to seek any remedy on account of any Person's fraud or willful misconduct.

Section 8.9 Miscellaneous. It is the intention of the parties to treat any indemnity payment made under this Agreement with respect to the Merger as an adjustment to the Merger Consideration, and any indemnity payment made under this Agreement with respect in the form of Parent Common Stock as an adjustment to the Share Consideration, and in the form of cash, as an adjustment to the Cash Consideration for all federal, state, local and foreign Tax purposes, and the parties agree to file their Tax Returns accordingly, except as otherwise required by a change in Law or a good faith resolution of a dispute.

ARTICLE IX

MISCELLANEOUS

Section 9.1 Certain Definitions. For purposes of this Agreement the following terms shall have the meanings herein specified (to be equally applicable to both the singular and the plural:

"Actual Earnout Profit Amount" shall mean with respect to each Earnout Period, the Surviving Corporation's consolidated income from operations (for the avoidance of doubt shall not include any interest expense, taxes, currency exchange or equity-based compensation expense) for such Earnout Period; provided, however, that only revenues that are included in the determination of the Actual Earnout Revenue Amount shall be included in determining the Actual Earnout Profit Amount. For purposes of eliminating doubt, the Parties acknowledge that all employee bonuses accrued during an Earnout Period shall reduce the Actual Earnout Profit Amount. The Surviving Corporation shall have the right to reduce employee bonus levels without the approval of the Parent in order to achieve the Earnout Profit Margin Target or the Upside Profit Margin Target; provided, however, that any bonus reductions made without the approval of Parent shall only be made in proportion to each Company Holder's proportionate share of the Earnout Payment and the Upside Payment as set forth in the Allocation Schedule. The Surviving Corporation acknowledges that certain personnel and operations of Parent and its Subsidiaries associated with the matters referred to in clause (d) of the definition of Actual Earnout Revenue Amount will be transferred to the Surviving Corporation or one of its Subsidiaries and, accordingly, the costs of such personnel and operations will not be accounted for in determining Actual Earnout Profit

Amount; provided, however, that except to the extent that revenues are deemed to count as Actual Earnout Revenue, the out of pocket expenses and amounts of commissions directly related to producing the revenues referred to in such clause (d) will be excluded from such determination to the extent that revenues are excluded from the Actual Earnout Revenue Amount by reason of the provisions of such clause (d). The out of pocket expenses and commissions directly related to Parent Referrals that generate revenue for the Surviving Corporation or its Subsidiaries shall be included as expenses when computing the Actual Earnout Profit Amount but other employee expense of such personnel shall not be so included. The amount of pocket expenses and commissions directly related to business referred by the Surviving Corporation or its Subsidiaries to the Parent and its other Subsidiaries shall not be included when determining the Actual Earnout Profit Amount but all other employee expense shall be included.

The aggregate amount of all Parent Imposed Expenses accrued since January 1, 2006, by the Company shall be included in the calculation of the Actual Earnout Profit Amount to the extent such expenses when combined with the Company's actual expenses for audit related services do not exceed the amount provided for in the Company's 2006 budget (a copy of which budget has been provided to the Parent) for such expenses. For purposes of eliminating doubt, the Parties acknowledge that to the extent such accrued Parent Imposed Expenses exceed the amounts provided for in the Company's budget, any such excess amounts shall not be included in the calculation of Actual Earnout Profit Amount.

Any amounts included in the Surviving Corporation's expenses as a result of the write-off of the promissory notes made by iTouchpoint in favor of the Company shall be excluded when calculating the Actual Earnout Profit Amount.

"Actual Earnout Profit Margin" shall mean with respect to each Earnout Period, the quotient of the Surviving Corporation's Actual Earnout Profit Amount for such Earnout Period divided by the Surviving Corporation's Actual Earnout Revenue Amount for such Period.

"Actual Earnout Revenue Amount" shall mean, with respect to each Earnout Period, the Surviving Corporation's consolidated revenues (which shall include reimbursed out-of-pocket expenses) for the relevant Earnout Period provided that the calculation of the Actual Earnout Revenue Amount (and, accordingly, the Actual Earnout Profit Amount) shall be made in accordance with the following:

(a) If the Surviving Corporation's consolidated revenues include under U.S. GAAP amounts received from customers respecting "out-of-pocket" expenses including normal travel and incidental expenses (it being understood that such "out-of-pocket" expenses do not include charges for supplemental services, such as technology charges), to the extent such out-of-pocket expenses exceed 10% of the Surviving Corporation's consolidated revenues for an Earnout Period, any revenues in excess thereof shall be excluded in computing the Actual Earnout Revenue Amount and any revenues or expenses in excess thereof shall be excluded in computing the Actual Earnout Profit Amount.

(b) The Actual Earnout Revenue Amount shall include revenues derived from Analytical Services and Consulting Services but shall not include revenues derived from other types of services. The key determinant of whether particular services constitute Analytical Services or Consulting Services will be made based on the nature of the skillset used by the personnel providing such services. If the nature of the services is not clear based on the skillset used by the personnel providing the services, then the determination shall be made based on the pricing of such services. In such event, if the pricing of such services is less than $35,000 annually per full time equivalent employee for a single statement of work (including all billable and non-billable time for the personnel providing the services), such services shall not be deemed Analytical Services or Consulting Services and shall be excluded from the computation of the Actual Earnout Revenue Amount. Upon submission by the Surviving Corporation of a Statement of Work for proposed Analytical Services or Consulting Services to the President of Parent, Parent shall have thirty (30) days to dispute such characterization by written notice setting forth in reasonable detail the reasons for such dispute. If no such notice is received during such period, the proposed services shall be deemed Analytical Services or Consulting Services; provided, however, that the characterization will be subject to adjustment if it is later established that the characterization set forth in the Statement of Work was factually incorrect or if the nature of the work actually performed is different than that described in the Statement of Work.

(c) The Actual Earnout Revenue Amount shall not include any revenues derived from providing services directly or indirectly to iTouchpoint or any of its Affiliates or any revenues realized by iTouchpoint.

(d) All revenues from providing Analytical Services to the prospective customers identified in Section 9.1 of the Company Disclosure Letter shall be excluded in each Earnout Period for purposes of determining the Actual Earnout Revenue Amount unless and until the amount of such revenues paid by such prospective customers in such Earnout Period exceeds $1,500,000 during the First Earnout Period and an amount equal to (i) the revenues paid by such prospective customers during the fourth quarter of 2006 multiplied by (ii) 5.2 (the "Second Earnout Period Prospective Client Amount") during the Second Earnout Period and then only such revenues from such prospective customers in excess of $1,500,000 during the First Earnout Period and the Second Earnout Period Prospective Client Amount during the Second Earnout Period shall be included in determining the Actual Earnout Revenue Amount.

(e) For purposes of eliminating doubt, the parties acknowledge that revenues derived from Parent's Opportunity Identification and Black Belt service and process re-engineering offerings performed by employees of Parent or its Subsidiaries (other than the Surviving Corporation and its Subsidiaries) shall not be included in the computation of Actual Earnout Revenue Amount regardless of whether such offerings are made to customers of the Parent or the Surviving Corporation, but such offerings shall be differentiated from consulting services heretofore offered by the Surviving Corporation and its Subsidiaries performed by employees of the Surviving Corporation or its Subsidiaries. The revenues from such consulting services will be included in the computation of Actual Earnout Revenue Amount regardless of whether such offerings are made to customers of the Parent or the Surviving Corporation.

(f) If the Surviving Corporation's management declines any Parent Referrals that the Parent or its Subsidiaries other than the Surviving Corporation or its Subsidiaries wish to accept then the Surviving Corporation shall use its reasonable efforts to assist and cooperate with the Parent if the Parent decides to take on the business or refer it to one of the Parent's other Subsidiaries. The revenues and costs of any such business referred to in the preceding sentence will not be included for purpose of determining the Actual Earnout Revenue Amount or the Actual Earnout Profit Amount.

(g) For purposes of avoiding doubt, the Parties agree that revenue that is not recognized under U.S. GAAP during an Earnout Period will not be included when determining the Actual Earnout Revenue Amount for such Earnout Period. In addition, (i) any revenue that is so recognized and is otherwise required to be included when determining the Actual Earnout Revenue Amount for such Earnout Period will nevertheless be excluded for purposes of determining the Earnout Payment if the cash amount of such revenue has not been collected by the Surviving Corporation or its Subsidiaries by the first anniversary of the payment of an Earnout Payment and shall be excluded for purposes of determining the Upside Payment if the cash amount of such revenue has not been collected by the Surviving Corporation or its Subsidiaries by the 180th day following the end of the Second Earnout Period (unless Parent has theretofore received an audit confirmation or other evidence that the receivable will be collected as may be reasonably requested by the Parent's audit firm) and an adjustment in the Earnout Payment or Upside Payment, as applicable, shall be made and each Company Holder shall return his pro rata share of such payment in accordance with the Allocation Schedule (and Parent may cancel shares of Parent Common Stock of any Company Holder failing to make such payment), (ii) if a credit or refund is issued or made with respect to any project in the Second Earnout Period with respect to which revenue was included in the First Earnout Period, the revenue to be included for the Second Earnout Period will be reduced by the amount of such credit or refund and (iii) if a credit or refund is issued with respect to any project after the end of the Second Earnout Period but before the determination of the Earnout Payment for the Second Earnout Period with respect to which revenue was included in the Second Earnout Period, the revenue to be included for the Second Earnout Period will be reduced by the amount of such credit or refund.

(h) If the provision to Section 2.8(a) is applicable, the following shall apply: If average monthly revenues included in the determination of the Actual Earnout Revenue Amount that are derived from Parent Referrals (the "Average Referral Revenue") after the acquisition or commencement of a Competing Business, is less than the Average Referral Revenue prior to such acquisition or commencement, then the Actual Earnout Revenue Amount following such acquisition or commencement shall be increased by an amount equal to the difference in Average Referral Revenue before and after such acquisition or commencement multiplied by the number of months (including partial months) remaining in the respective Earnout Period from and after such acquisition or commencement. If this clause (h) applies during the First Earnout Period, then the measurement of the shortfall for the First Earnout Period shall be made with respect to the period after such acquisition or commencement until the end of the First Earnout Period and the measurement of the shortfall for the Second Earnout Period shall be made for the entire Second Earnout Period.

"Affiliate," as applied to any person, shall mean any other person directly or indirectly controlling, controlled by or under common control with, that person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlling." "controlled by" and "under common control with"), as applied to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that person, whether through the ownership of voting securities, by contract or otherwise.

"Analytical Services" shall mean marketing analytics, risk modeling and analytics, analytical services (including collections file processing, lead management, staff augmentation, market research analytics, and model factory), operations analytics, consisting of cash flow modeling, reserve analysis and equity analysis or similar types of financial analytical services and other quantitative services.

"Business Day" shall mean any day, other than Saturday, Sunday or a federal holiday, and shall consist of the time period from 12:01 a.m. through 12:00 midnight Eastern time. In computing any time period under this Agreement, the date of the event that begins the running of such time period shall be included, except that if such event occurs on other than a Business Day, such period shall begin to run on and shall include the first Business Day thereafter.

"Capital Change" shall mean any reclassification, merger, consolidation, reorganization, stock split (including a reverse stock split), stock dividend or distribution or other similar transaction.

"Consulting Services" shall mean marketing strategy, product and service strategy, re-engineering, web-enablement, global resource optimization, risk management optimization, technology optimization, general strategy, management and operations consulting.

"Debt" shall mean as of any date, (without duplication) with respect to any Person, any long term liability or any indebtedness outstanding, secured or unsecured, contingent or otherwise, which is for borrowed money (whether or not the recourse of the lender is to the whole of the assets of such Person or only to a portion thereof), or evidenced by bonds, notes, debentures or similar instruments or representing the balance deferred and unpaid of the purchase price of any property (excluding, without limitation, any balances that constitute trade payables) and shall also include, to the extent not otherwise included (a) any capital lease obligations determined in accordance with U.S. GAAP, (b) obligations of Persons other than such Person secured by a Lien to which the property or assets owned or held by such Person is subject, whether or not the obligation or obligations secured thereby shall have been incurred or assumed by such Person,

(c) all indebtedness or long term liabilities of others of the types described in the other clauses of this definition (including all dividends of other Persons) the payment of which is guaranteed, directly or indirectly, by such Person or that is otherwise its legal liability or which such Person has agreed to purchase or repurchase or in respect of which such Person has agreed contingently to supply or advance funds (whether or not such items would appear upon the balance sheet of the guarantor), (d) all obligations for the reimbursement of any obligation or on any letter of credit, banker's acceptance or similar credit transaction, (e) the deferred or contingent purchase price of assets, services or securities and (f) obligations under any currency or interest rate swap, hedge or similar protection device of any such Person. The amount of Debt of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations referred to in clause (c) above, the maximum liability upon the occurrence of the contingency giving rise to the obligation. Notwithstanding any other provision of the foregoing definition, (i) any trade payable arising from the purchase of goods or materials or for services arising in the ordinary course of business shall not be deemed to be Debt for purposes of this definition and (ii) Debt shall not include $3,081,500 of outstanding bank debt of the Company that was incurred for the purpose of funding loans to iTouchpoint.

"Earnout Payment Date" shall mean the date on which each Earnout Payment is due under this Agreement.

"Earnout Payment", shall mean with respect to each Earnout Period, the number of Earnout Shares payable to the Company Holders for such Earnout Period as determined pursuant to this Agreement, subject, however, to adjustment pursuant to Section 2.8(d).

"Earnout Period" shall mean the First Earn-Out Period and the Second Earn-Out Period.

"Earnout Profit Margin Target" shall mean (a) 0.103 for the First Earnout Period and (b) 0.143 for the Second Earnout Period.

"Earnout Shares" shall mean 194,691 shares of Parent Common Stock for each Earnout Period. In the event that prior to the end of the Earnout Period there is any change in the number of shares of Parent Common Stock as a result of any Capital Change, then the amount of Earnout Shares will be proportionally and equitably adjusted to reflect such Capital Change.

"Earnout Spread" shall mean (a) $2,800,000 for the First Earnout Period and (b) $3,500,000 for the Second Earnout Period.

"Fair Market Value" shall mean, with respect to the capital stock of any Person, as of the date of determination, (a) if such capital stock is listed on a national securities exchange, the closing price per share of such capital stock on such date published in The Wall Street Journal (National Edition) or, if no such closing price on such date is published in The Wall Street Journal (National Edition), the average of the closing bid and asked prices on such date, as officially reported on the principal national securities exchange on which such capital stock is then listed or admitted to trading; or (b) if such capital stock is not then listed or admitted to trading on any national securities exchange but is designated as a national market system security by the National Association of Securities Dealers, Inc., the last trading price of such capital stock on such date; or (c) if there shall have been no trading on such date or if such capital stock is not designated as a national market system security by the National Association of Securities Dealers, Inc., the average of the reported closing bid and asked prices of such capital stock on such date as shown by the National Market System of the National Association of Securities Dealers, Inc. Automated Quotations System and reported by any member firm of the New York Stock Exchange selected by Parent; or (d) if none of (a), (b) or (c) is applicable or in the case of property other than capital stock of a Person, a fair market value determined by the Board of Directors of such Person.

"First Earnout Period" shall mean the calendar year beginning January 1, 2006 and ending December 31, 2006.

"Knowledge" as applied to the Company or the Parent, shall mean the actual knowledge of the officers of the Company or the Parent, as the case may be, after due inquiry.

"Law" shall mean federal, state or local law (including common law), statute, code, ordinance, rule, regulation, Order or other requirement.

"Material Adverse Effect on the Company" shall mean any change in, occurrence or effect on the business, assets, properties, results of operations or condition (financial or otherwise) of the Company or its Subsidiaries that is or could reasonably be expected to be materially adverse to the Company and its Subsidiaries taken as a whole or that could materially impair the ability of the Company to perform its obligations under this Agreement or to consummate the Merger and the other transactions contemplated by this Agreement, other than events, occurrences, changes in or effects (individually or in combination) arising out of or resulting from (i) changes in conditions in the United States or global economy or capital or financial markets generally, including changes in interest or exchange rates or (ii) changes in general legal, regulatory, political, economic or business conditions or changes in generally accepted accounting principles that, in each case, generally affect industries in which the Company and its Subsidiaries conduct business, provided that such changes do not affect the Company and its Subsidiaries in a materially disproportionate manner.

"Material Adverse Effect on the Parent" shall mean any change in, occurrence or effect on the business, assets, properties, results of operations or condition (financial or otherwise) of the Parent or its Subsidiaries that is or could reasonably be expected to be materially adverse to the Parent and its Subsidiaries taken as a whole, (without consideration of the Surviving Corporation or its respective Subsidiaries) or that could materially impair the ability of the Parent to perform its obligations under this Agreement or to consummate the Merger and the other transactions contemplated by this Agreement, other than events, occurrences, changes in or effects (individually or in combination) arising out of or resulting from (i) changes in conditions in the United States or global economy or capital or financial markets generally, including changes in interest or exchange rates or (ii) changes in general legal, regulatory, political, economic or business conditions or changes in generally accepted accounting principles that, in each case, generally affect industries in which the Parent and its Subsidiaries conduct business, provided that such changes do not affect the Parent and its Subsidiaries in a materially disproportionate manner.

"Maximum Earnout Revenue Target" shall mean $28,000,000 for the First Earnout Period and $35,000,000 for the Second Earnout Period.

"Maximum Upside Revenue Target" shall mean $49,000,000.

"Minimum Earnout Revenue Target" shall mean $25,200,000 for the First Earnout Period and $31,500,000 for the Second Earnout Period.

"Minimum Upside Revenue Target" shall mean $42,000,000.

"Order" means any writ, judgment, decree, injunction or similar order of any Governmental Entity (in each such case whether preliminary or final).

"Parent Imposed Expenses" shall mean all out-of-pocket expenses (including all fees and expenses of counsel, accountants, experts and consultants) and other allocated expenses incurred by the Company and its Subsidiaries (whether before or after the Effective Time) in connection with, or in preparation for, any initial public offering of Parent's securities.

"Parent Referrals" shall mean referrals by the Parent to the Surviving Corporation of any business involving the development, marketing or offering of Analytical Services or Consulting Services.

"Person" shall mean individuals, corporations, limited and general partnerships, trusts, limited liability companies, associations, joint ventures, Governmental Entities and other entities and groups (which term shall include a "group" as such term is defined in Section 13(d)(3) of the Exchange Act).

"Potential Company Employee Conflicts" shall mean any investment, by a Company Employee in any Person or any consulting or any other participation in such Person's business.

"Profit Adjusted Earnout Revenue" shall mean (a) if the Actual Earnout Profit Margin for an Earnout Period is equal to or greater than the Earnout Profit Margin Target for such Earnout Period, then the Actual Earnout Revenue Amount for such Earnout Period, or (b) if the Actual Earnout Profit Margin for an Earnout Period is less than the Earnout Profit Margin Target for such Earnout Period, then the quotient of (x) the Actual Earnout Profit Amount for such Earnout Period divided by (y) 0.103 during the First Earnout Period or 0.143 during the Second Earnout Period.

“Profit Adjusted Upside Revenue” shall mean, during the Second Earnout Period (a) if the Actual Earnout Profit Margin is equal to or greater than the Upside Profit Margin Target, then the Actual Earnout Revenue Amount for the Second Earnout Period, or (b) if the Actual Earnout Profit Margin is less than the Upside Profit Margin Target, then the amount equal to the Actual Earnout Profit Amount for the Second Earnout Period divided by 0.150.

“Second Earnout Period” shall mean the calendar year beginning January 1, 2007 and ending December 31, 2007.

“Subsidiary” shall mean, with respect to the Parent, the Company, the Surviving Corporation or any other Person, any entity of which the Parent, the Company or such other person, as the case may be (either alone or through or together with any other subsidiary), owns, directly or indirectly, stock or other equity interests constituting more than 50% of the voting or economic interest in such entity, or the financial results of which are or are required to be consolidated with the Parent, the Company, the Surviving Corporation or such other Person under U.S. GAAP.

“Taxes” means (i) any and all federal, state, provincial, local, foreign and other taxes, levies, fees, imposts, duties, and similar governmental charges (including any interest, fines, assessments, penalties or additions to tax imposed in connection therewith or with respect thereto) including, without limitation (x) taxes imposed on, or measured by, income, franchise, profits or gross receipts, and (y) ad valorem, value added, capital gains, sales, goods and services, use, real or personal property, capital stock, license, branch, payroll, estimated withholding, employment, social security (or similar), unemployment, compensation, utility, severance, production, excise, stamp, occupation, premium, windfall profits, transfer and gains taxes, and customs duties, and (ii) any transferee liability in respect of any items described in clause (i) above.

“Tax Returns” means any and all reports, returns, declarations, claims for refund, elections, disclosures, estimates, information reports or returns or statements required to be supplied to a governmental authority in connection with Taxes, including any schedule or attachment thereto or amendment thereof.

“Two Specified Clients” shall mean the clients identified in Section 2.4(b)(ii) of the Company Disclosure Letter.

“Upside Equity Valuation Date” shall mean (a) if the Parent Common Stock shall not be registered under the Securities Exchange Act of 1934, as amended, the last day of the Earnout Period with respect to which the Upside Payment is being computed and (b) if the Parent Common Stock shall be so registered, then Fair Market Value shall be computed on each of the ten trading days following the public announcement of Parent’s financial results for the Earnout Period and the Fair Market Value shall be the average thereof.

“Upside Payment” shall mean, $6,473,468 or such lesser amount as shall be payable to the Company Holders as determined pursuant to this Agreement.

"Upside Profit Margin Target" shall mean 0.150.

"Upside Spread" shall mean $7,000,000.

"U.S. GAAP" shall mean United States generally accepted accounting principles as in effect on the date of this Agreement.

Section 9.2 Exclusive Representations. Each party agrees that, except for the representations and warranties contained in this Agreement, the Company Disclosure Letter and the Parent Disclosure Letter, no party to this Agreement has made any other representations and warranties, and each party disclaims any other representations and warranties, made by itself or any of its officers, directors, employees, agents, financial and legal advisors or other Representatives with respect to the execution and delivery of this Agreement or the transactions contemplated by this Agreement, notwithstanding the delivery of disclosure to any other party or any party's Representatives of any documentation or other information with respect to any one or more of the foregoing.

Section 9.3 Counterparts. This Agreement may be executed in any number of counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts shall together constitute the same agreement.

Section 9.4 GOVERNING LAW. THIS AGREEMENT SHALL BE INTERPRETED, CONSTRUED AND GOVERNED BY THE DGCL AS TO MATTERS WITHIN THE SCOPE THEREOF, AND AS TO ALL OTHER MATTERS THIS AGREEMENT SHALL BE INTERPRETED, CONSTRUED AND GOVERNED BY AND IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES.

Section 9.5 Consent to Jurisdiction. Each of the parties, and by their approval of the Merger and the approval of the form of this Agreement by the holders of the Company Options and their execution and delivery of the Letter of Transmittal and the Company Holder Agreement, each Common Holder, submits to the jurisdiction of any state or federal court sitting in New York County, New York, in any action, suit or proceeding arising out of or relating to this Agreement and agrees that all claims in respect of the action or proceeding may be heard and determined in any such court. Each Party also agrees not to bring any action or proceeding arising out of or relating to this Agreement in any other court. Each Party and each Company Holder waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought and waives any bond, surety, or other security that might be required of any other party with respect thereto.

Section 9.6 Representative. Pursuant to the approval of the Merger and the authorization of the form of this Agreement by the Company Holders, and the execution and delivery of the Letter of Transmittal, the Representative is appointed, authorized and empowered to be the exclusive proxy, representative, agent and attorney-in-fact of each of the Company Holders, with full power of substitution, (i) to make all decisions and determinations and to act and execute, deliver and receive all documents, instruments and consents on behalf of the Company Holders at any time, in connection with, and that may be necessary or appropriate to accomplish the intent and implement the provisions of this Agreement and (ii) to facilitate the consummation of the transactions contemplated by this Agreement, and in connection with the activities to be performed by or on behalf of such Company Holders under this Agreement, (including, without limitation, in connection with any and all claims for remedies brought pursuant to this Agreement). By executing this Agreement, the Representative accepts such appointment, authority and power. Without limiting the generality of the foregoing, the Representative shall have the power to take any of the following actions on behalf of the Company Holders; (i) to give and receive notices, communications and consents under this Agreement; (ii) to receive and distribute payments and consideration deliverable pursuant to this Agreement; (iii) to waive any provision of this Agreement; (iv) to assert any claim or institute any contest or action arising out of or relating to this Agreement; (v) to investigate, defend, contest or litigate any Claim initiated by any Person against the Representative in his capacity as such; (vi) to receive process on behalf of any or all Company Holders in any such contest or Claim; (vii) to negotiate, enter into settlements and compromises of, resolve and comply with orders of courts and awards of arbitrators or other third party intermediaries with respect to any disputes arising under this Agreement; (viii) to agree to any offsets or other additions or subtractions of amounts to be paid under this Agreement; and (ix) to make, execute, acknowledge and deliver all such other agreements, orders, receipts, endorsements, notices, requests, instructions, certificates, stock powers, letters and other writings, and, in general, to do any and all things and to take any and all action that the Representative, in his sole and absolute discretion, may consider necessary or proper or convenient in connection with or to carry out the activities described in this Section 9.6 and the transactions contemplated hereby. Notice or communications to or from the Representative shall constitute notice to or from any Company Holder. Any portion of the $150,000 deposited with the Representative in accordance with Section 2. 1(c) for the purpose of satisfying its obligations under this Agreement that has not been expended or obligated on or before June 30, 2008, or for which the Representative has determined in good faith may be required to satisfy its obligations under this Agreement, shall he delivered by the Representative to the Parent and released pro rata by the Parent to the Company Holders in accordance with the Allocation Schedule. In the event that the Representative withholds funds as provided in the immediately preceding sentence, any part thereof not expended or obligated shall be promptly delivered by the Representative to the Parent and released pro rata by the Parent to the Company Holders in accordance with the Allocation Schedule as soon as reasonably determined by Representative that such funds will not be required to fulfill it obligations under this Agreement shall be delivered by the Representative to the Parent and released pro rata by the Parent to the Company Holders in accordance with the Allocation Schedule. Company Holders holding a majority of the shares of Parent Common Stock held thereby may, upon the resignation, death, disability or incapacity of the Representative, appoint in writing a successor to act as the representative and attorney-in-fact of the Company Holders in connection with this Agreement.

Section 9.7 Notices. Any notices or other communications required under this Agreement shall be in writing and be deemed effectively given (i) upon delivery, if given by hand delivery, (ii) upon confirmed, facsimile transmission when sent by facsimile during normal business hours of the recipient (or if not so confirmed, the next Business Day) or (iii) the next Business Day, if delivered by a nationally recognized overnight courier. Any such notices or other communications shall be given at the addresses or facsimile numbers set forth below, with copies provided as follows:

if to the Parent or Merger Sub:

ExlService Holdings, Inc.
350 Park Avenue
New York, New York 10022
Attention: Legal Department
Fax: (212) 277-7111

with copies to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, New York 10019-6064
Attention: Carl Reisner, Esq.
Fax: (212) 492-0017

if to the Company:

Inductis, Inc.
571 Central Ave, Suite 105
New Providence, New Jersey 07974-1547
Attention: Sandeep Tyagi
Fax: (908) 508-7811

with copies to:

Lowenstoin Sandler PC
65 Livingston Avenue
Roseland, New Jersey
Attention: Edward M. Zimmerman, Esq.
Fax: (973) 597-2569

or to such other persons or addresses as may be designated in writing by the party to receive such notice as provided above.

Section 9.8 Entire Agreement. This Agreement (including any Exhibits and annexes to this Agreement), the Company Disclosure Letter and the Parent Disclosure Letter constitute the entire agreement and supersede all other prior agreements, understandings, representations and warranties, both written and oral, among the parties, with respect to the subject matter of this Agreement.

Section 9.9 No Third Party Beneficiaries. This Agreement is not intended to confer upon any person other than the parties to this Agreement any rights or remedies under this Agreement.

Section 9.10 Amendment. This Agreement may be amended by the parties to this Agreement, at any time prior to the Effective Time whether before or after Stockholder approval; provided, that after the adoption of this Agreement by the stockholders of the Company, no amendment may be made that by law requires further approval by such Stockholders without such further approval. This Agreement may not be amended except by an instrument in writing signed by the parties to this Agreement.

Section 9.11 Waiver. At any time prior to the Effective Time, any party to this Agreement may (a) extend the time for the performance of any obligation or other act of any other party to this Agreement, (b) waive any inaccuracy in the representations and warranties contained in this Agreement or in any document delivered pursuant to this Agreement, and (c) subject to applicable law, waive compliance with any agreement or condition contained in this Agreement. Any waiver of a condition set forth in Section 6.1, or any determination that such a condition has been satisfied, will be effective only if made in writing by each of the Company and the Parent and, unless otherwise specified in such writing, shall thereafter operate as a waiver (or satisfaction) of such conditions for any and all purposes of this Agreement. Any such extension or waiver shall be valid if set forth in an instrument in writing signed by the party or parties to be bound thereby.

Section 9.12 Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability or the other provisions of this Agreement. If any provision of this Agreement, or the application of that provision to any person or any circumstance, is invalid or unenforceable, (a) the parties shall negotiate in good faith a suitable and equitable provision to substitute for that provision in order to carry out, so far as may be valid and enforceable, the intent and purpose of the invalid or unenforceable provision and (b) the remainder of this Agreement and the application of the provision to other persons or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of the provision, or the application of that provision, in any other jurisdiction.

Section 9.13 Interpretation. This Agreement has been negotiated by the respective parties hereto and their attorneys and the language hereof will not be construed for or against either party. A reference to an Article, Section or an Exhibit or Schedule will mean an Article or Section in, or Exhibits or Schedule to, this Agreement unless otherwise explicitly set forth. The definitions in this Agreement shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. All Schedules and Exhibits attached hereto shall be deemed incorporated herein as if set forth in full herein and, unless otherwise defined therein, all terms used in any Schedule or Exhibit shall have the meaning ascribed to such term in this Agreement. The words *"include," "includes"* and *"including"* shall be deemed to be followed by the phrase *"without limitation."* All accounting terms not defined in this Agreement shall have the meanings determined by U.S. GAAP. The words *"hereof" "herein"* and *"hereunder"* and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

Section 9.14 Assignment. This Agreement shall not be assignable by operation of law or otherwise, except that the Parent may after the Effective Time assign its rights hereunder and may prior to the Effective Time designate, by written notice to the Company, a Parent Subsidiary that is wholly owned, directly or indirectly, by the Parent to be merged with and into the Company in lieu of Merger Sub, in which event all references in this Agreement to Merger Sub shall be deemed references to such Parent Subsidiary.

Section 9.15 Specific Performance. The parties to this Agreement agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise reached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of competent jurisdiction under this Agreement, this being in addition to any other remedy to which they are entitled at law or in equity.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of the parties to this Agreement as of the date first written above.

EXLSERVICE HOLDINGS, INC.

By: /s/ Rohit Kapoor
Name: Rohit Kapoor
Title: President

EXLSERVICE MERGER SUB INC.

By: /s/ Rohit Kapoor
Name: Rohit Kapoor
Title: President

INDUCTIS, INC.

By: /s/ Max Polenar
Name: Max Polenar
Title: Chief Financial Officer

MAJOR STOCKHOLDERS:

/s/ Sandeep Tyagi
Sandeep Tyagi, individually and as Representative

/s/ Sudip Chakraborty
Sudip Chakraborty

/s/ Kal Bittianda
Kal Bittianda

/s/ Puneet Shivam
Puneet Shivam

/s/ Lalit Wangikar
Lalit Wangikar

/s/ Vijay Parekh
Vijay Parekh

March 31, 2005

Katy Murray
5445 Caruth Haven Lane #1124
Dallas, TX 75224

Re: Employment Offer Letter

Dear Katy:

We are pleased to offer you the position of Chief Financial Officer with ExlService.com, Inc. ("ExlService") and ExlService Holdings, Inc. ("Holdings" and together with ExlService, the "Company"). As Chief Financial Officer you will be reporting directly to the Company's President, and you will be generally responsible for the financial affairs of the Company on a global basis and for duties commensurate with such position. In addition, (a) you will report, on an as-needed basis, to the Company's Chief Executive Officer and (b) following the initial public offering (the "IPO") of the common stock of Holdings, you may be required from time to time to report directly to the Audit Committee of Holdings' Board of Directors (the "Board").

The annual salary for this position is $260,000.00, payable as per the Company's payroll policies. Currently, the payroll periods end on the 15th and 30th of each month. Your start date of work with the Company will be a date mutually agreed by you and the Company that is no later than May 17, 2005. Following the IPO and the annual consolidated gross revenues of Holdings exceeding $100 million, the annual salary for this position will be increased to $275,000.00. While this letter sets forth the terms and conditions under which you will be employed by the Company, this offer is not to be considered a contract guaranteeing employment for any specific duration. As an at-will employee, both you and, subject to the severance terms in this letter, the Company, have the right to terminate your employment at any time.

Simultaneously, you will be an employee of Gevity and required to sign Gevity's new hire and benefits package. Gevity handles the administrative responsibilities for the Company's employment-related issues such as payroll and benefits, while the Company handles the day-to-day activities related to its core business.

Incentive Compensation: You will be entitled to an annual "Target Bonus", which will be earned based upon the attainment of targets contained in a management-approved performance matrix, of $90,000.00. The Target Bonus will be prorated based on your start date if paid out earlier than the completion of one year of uninterrupted service. The terms and conditions of your performance matrix relating to your individual performance shall be determined jointly with you after the start of your employment.

Stock Options: Upon your employment you will be granted stock options to acquire 120,000 shares of Series B common stock of Holdings upon joining as per terms defined in Holdings' 2003 Stock Option Plan (as it may be amended or restated from time to time, the "Option Plan") and a stock option letter which you will receive upon commencing employment (which terms will be consistent with the terms applicable to all senior management and at an exercise price of $23.75 per share). You will be eligible to participate in any stock split that occurs prior to the IPO.

Annual performance reviews will be conducted jointly by the Chief Executive Officer and the President to assess professional development opportunities for you as well as to consider increases to your compensation (including additional equity grants).

Moving Expenses: The Company will reimburse you for moving expenses on an actual incurrence basis in an amount not to exceed $25,000.00 within a reasonable period after you submit receipts for such expenses. In addition, the Company will pay for your hotel stay or temporary accommodation in New York in accordance with the Company's policies for a period not to exceed the earlier of four calendar weeks following your start date and the time you move into your personal accommodation.

Benefits: As an employee of the Company, you will be eligible to participate in health, dental, vision, life insurance and disability plans in accordance with the terms and conditions of those plans. You will become eligible for these plans after 60 days of your start date. The Company will reimburse you for the monthly COBRA premium you will be required to pay to your prior employer in order to maintain medical and dental insurance coverage for you and your eligible dependents until such time as you become eligible to participate in the Company's health benefit program.

You will also be eligible to participate in the Company's 401(k) plan in accordance with the terms and conditions of such plan. Under this plan, you can save a percentage of your eligible compensation (subject to IRS maximum limits) through pre-tax payroll deduction.

You will also be covered by the Company's director and officer insurance and be indemnified on the same basis as other officers in the Company.

Vacation and Sick Leave: You will be entitled to four weeks vacation per calendar year (pro-rated for partial years of employment) to be taken in accordance with the policies in your employee's package from Gevity. Refer to your Gevity's employees' package for sick leave allowances.

Business Expenses: The Company will pay for or reimburse authorized and proper business related expenses that you may incur in discharging your duties, upon your submission of suitable receipts therefor and in accordance with the expense reimbursement policy of the Company as in effect from time to time.

Proprietary Information Agreement: Prior to commencement of your employment, and in consideration therefor, you will be required to execute an employment agreement with the Company and Gevity, the terms of which will be consistent with the terms of this letter and Confidentiality and Non-Compete Agreements substantially in the form attached hereto.

Outside Employment: Your position with the Company is a full time responsibility requiring your full loyalty and dedication. So that you can do your best, we require that you do not work for another employer while you are employed with the Company. Furthermore, the Company prohibits its employees from working for or investing money in any competitor of the Company or conducting their own business in competition with the Company whether during working hours or after work hours, except as permitted pursuant to Section 2 of the Confidentiality and Non-Competition Agreement executed on the date hereof.

Severance: If the Company terminates your employment other than for "Cause" (which is defined below), the Company will pay you, upon execution (and non-revocation during any applicable revocation period) by you of a standard release of all employment-related claims against the Company and Holdings, a one-time lump sum severance payment, payable within three business days of termination of employment, equal to three (3) months of your base salary then in effect. In addition, the Company will continue to pay you (per the Company's payroll policies) your then current base salary for a three-month period commencing on the third month anniversary of termination of employment; provided, however, that during such three-month severance period you actively seek comparable employment and upon subsequent employment the Company's obligation to you shall be reduced by any base salary you earn (whether paid currently or deferred) during such severance period from your subsequent employer. In addition, the Company shall maintain your health and dental insurance coverage until the last day of such foregoing severance period or, if earlier and in respect of each of health and dental coverage considered separately, until such time as you and your eligible dependents are covered under a future employer's health or dental insurance coverage. (At the Company's option such continued health and dental coverage shall be through its payment of your COBRA premiums for the applicable period and, if the Company elects that method of satisfying this obligation, you agree to timely make any elections required in order to secure COBRA coverage.)

"Cause" shall mean (a) any conviction by a court of law of, or entry of a pleading of guilty or *nolo contendre* by you with respect to a felony, other crime involving moral turpitude or any lesser crime a material element of which is fraud or dishonesty; (b) your willful and deliberate dishonesty of a substantial nature toward the Company or any of its subsidiaries; (c) your failure to obey lawful instructions given to you by the Company's Chief Executive Officer or President, or by the Board or any authorized committee thereof (including cooperating fully in any investigation by any governmental authority); (d) theft, fraud, embezzlement or similar conduct by you; (e) use of alcohol or drugs which materially interferes with the performance of your duties hereunder or which materially compromises your integrity and reputation or the integrity and reputation of the Company or any of its subsidiaries, or that of their respective employees, services or products; (f) your material, knowing and intentional failure to comply with material applicable laws with respect to the execution of the Company's and its subsidiaries' business operations, including, without limitation, a knowing and intentional failure to comply with the Foreign Corrupt Practices Act of 1997 of the US Congress, as amended (provided, that, if both of the following conditions exist, there will be a presumption that you have acted in accordance with such applicable law: (i) you are following, in good faith, the written advice of counsel, such counsel having been approved by the Board as outside counsel to the Company for regulatory and compliance matters, in the form of a legal memorandum or a written legal opinion and (ii) you have, in good faith, provided to such counsel all accurate and truthful facts necessary for such counsel to render such legal memorandum or written legal opinion); or (g) your having breached the representation contained in the first sentence under the heading "Miscellaneous" below.

There will be no severance payment payable if you resign, are terminated by the Company for Cause or because you are unable to perform your duties due to disability, or you die.

Change in Control Severance: In the event that your employment with the Company is terminated by the Company without Cause (other than on account of your disability) (a) twelve months after a "Change in Control" (which is defined below) or (b) in specific contemplation of a Change in Control, you shall, upon execution (and non-revocation during any applicable revocation period) of a standard release of all employment-related claims against the Company, Holdings and their respective subsidiaries and each of their employees, officers and directors be entitled to the following:

(I) a one-time lump sum severance payment, payable within three business days of termination of employment, equal to three (3) months of your base salary then in effect;

(II) a continuing payment (per the Company's payroll policies) of your then current base salary for a three-month period commencing on the third month anniversary of termination of employment; provided, however, that during such three-month severance period you actively seek comparable employment and upon subsequent employment the Company's obligation to you shall be reduced by any base salary you earn (whether paid currently or deferred) during such severance period from your subsequent employer;

(III) maintenance by the Company of your health and dental insurance coverage for six months following your termination of employment or, if earlier and in respect of each of health and dental coverage considered separately, until such time as you and your eligible dependents are covered under a future employer's health or dental insurance coverage. (At the Company's option such continued health and dental coverage shall be through its payment of your COBRA premiums for the applicable period and, if the Company elects that method of satisfying this obligation, you agree to timely make any elections required in order to secure COBRA coverage.); and

(IV) immediate vesting as of the termination date of outstanding unvested stock options and other equity grants, in each case that would have vested within one year following such termination date.

The term “Change in Control” shall be used herein as defined in the Option Plan.

Nothing herein contained shall require or be deemed to require the Company to segregate, earmark or otherwise set aside any funds or assets to provide for any payments required to be made hereunder, and your right to the compensation set forth under the heading “Change in Control Severance” shall be solely that of a general, unsecured creditor of the Company.

Miscellaneous: You represent and warrant to the Company that neither the execution, delivery and performance of this letter agreement and the Confidentiality and Non-Compete Agreement nor the performance of your duties to the Company, Holdings or any of their affiliates violates or will violate the provisions of any other agreement to which you are a party or by which you are bound.

Nothing herein contained shall require or be deemed to require the Company to segregate, earmark or otherwise set aside any funds or assets to provide for any payments required to be made hereunder, and your right to the compensation set forth in this letter agreement shall be solely that of a general, unsecured creditor of the Company.

The amount of any payment made by the Company to you under the terms of this letter agreement shall be reduced by any withholdings and other employee deductions as may be required by law or elected by you in accordance with the Company’s benefit plans.

This letter agreement supersedes any prior oral or written understanding about the terms of your employment with the Company and any change to such terms must be in writing and signed by you and the Company.

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

* * * * * * *

On your first day of employment you will be provided with information regarding the Company's policies and general employment conditions. To fulfill federal identification requirements, you should bring documentation to support your identity and eligibility to work in the United States. Please contact the Company's HR administrator for specifics.

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

We hope this job offer demonstrates our commitment to create a flexible and successful partnership that works for both of us. The position of Chief Financial Officer deserves and requires great commitment from someone of your caliber. I am confident that with you on the team we can accomplish great heights, both now and in the future.

[Remainder of page intentionally left blank]

To indicate your acceptance of the Company's offer, please sign and date this letter in the space provided below, and return it to me before April 1, 2005.

Regards,

/s/ Rohit Kapoor	/s/ Vikram Talwar
Rohit Kapoor	Vikram Talwar
President & CFO	CEO & Vice-Chairman

Accepted:

/s/ Katy Murray
Name: Katy Murray
Date: March 31, 2005

Exhibit 10.30

EXECUTION COPY

COMPANY HOLDER AGREEMENT

COMPANY HOLDER AGREEMENT (this "Company Holder Agreement"), dated as of June 30, 2006, among the holders of Class C-1 Common Stock, Class C-2 Common Stock (such stock, collectively, the "Company Common Stock"), the holders of options to purchase Company Common Stock (together with holders of Company Common Stock, the "Company Holders"), ExlService Holdings, Inc., a Delaware corporation, ("Parent"), ExlService Merger Sub Inc., a Delaware corporation ("Merger Sub") and Inductis, Inc., a Delaware corporation (the "Company"). Capitalized terms used herein but not otherwise defined shall have the meaning ascribed to such terms in the Merger Agreement (as defined below).

WHEREAS, Parent, Merger Sub, the Company and several stockholders of the Company have entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Merger Sub will be merged with and into the Company (the "Merger"), with the Company as the surviving corporation in the Merger (the "Surviving Corporation").

WHEREAS, pursuant to the Merger Agreement, Parent will issue certain shares of Parent Common Stock to Company Holders as of the Effective Time and pay such Company Holders cash subject to the terms of, and as set forth in, the Merger Agreement. At the time of issuance, the Parent Common Stock to be received by the Company Holders will not have been registered under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon the exemption from registration contained in Section 4(2) of the Securities Act or Regulation D promulgated thereunder.

WHEREAS, it is a condition to the consummation of the Merger that each Company Shareholder execute and deliver this Company Holder Agreement. To induce Parent, Merger Sub and the Company to consummate the Merger, the parties hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Certain Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

"Affiliate" shall mean as to any Person (a) any Person which directly or indirectly controls, is controlled by, or is under common control with such Person, and (b) any Person who is a director, officer, partner or principal of such Person or of any Person which directly or indirectly controls, is controlled by, or is under common control with such Person. For purposes of this definition, "control" of a Person shall mean the power, direct or indirect, to direct or cause the direction of the management and policies of such Person whether by ownership of Voting Stock, by contract or otherwise.

"Board" shall mean the Board of Directors of the Parent as from time to time hereafter constituted.

"Cause" shall mean as defined in any then existing employment, consulting or any other agreement between any Company Holder and the Parent or an Affiliate or, in the absence of such an employment, consulting or other agreement, the Parent or an Affiliate having "cause" to terminate any Company Holder's employment or service upon (i) the good faith determination by the Board that such Company Holder has ceased to perform his duties to the Parent or an Affiliate (other than as a result of his incapacity due to physical or mental illness or injury), which failure amounts to an intentional and extended neglect of his duties to such party, provided that no such failure shall constitute Cause unless such Company Holder has been given notice of such failure (if cure is reasonably possible) and has not cured such act or omission within 15 days following receipt of such notice, (ii) the Board's good faith determination that such Company Holder has engaged or is about to engage in conduct materially injurious to the Parent or an Affiliate, (iii) such Company Holder having been convicted of, or plead guilty or no contest to, a felony or any crime involving as a material element fraud or dishonesty or (iv) the consistent failure of such Company Holder to follow the lawful instructions of the Board or his direct superiors, which failure amounts to an intentional and extended neglect of his duties to such party.

"Change of Control" means (i) the acquisition by any Person or any group of Persons (other than Oak Hill) acting together which would constitute a "group" (a "Group") for purposes of Section 13(d) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), or any successor provisions thereto, of beneficial ownership of at least 50% of the aggregate Voting Stock of all classes of voting securities of the Parent, (ii) the reorganization, merger or consolidation of the Parent with respect to which all of the Persons who were the respective beneficial owners of the Voting Stock of the Parent immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 50% of the aggregate Voting Stock of the Parent resulting from such reorganization, merger or consolidation or (iii) the direct or indirect sale or other disposition, in one or a series of transactions, of assets representing all or substantially all of the assets of the Parent to any Person or Group.

"Common Stock" shall mean shares of common stock, par value $0.001 per share, of the Parent, as adjusted to reflect any merger, consolidation, recapitalization, reclassification, split-up, stock dividend, rights offering, reverse stock split or other similar action made, declared or effected with respect to the Common Stock.

"Good Reason" shall mean as defined in any then existing employment, consulting or any other agreement between any Company Holder and the Parent or an Affiliate or, in the absence of such an employment, consulting or other agreement, the occurrence, without such Company Holder's prior written consent, of any of the following events:

(A) a substantial reduction of such Company Holder's duties or responsibilities; or

(B) a breach by the Parent of any material term of any employment, consulting, or other compensatory agreement between such Company Holder and the Parent; provided that, a termination by such Company Holder with Good Reason shall be effective only if, within 30 days following such Company Holder's first becoming aware of the circumstances giving rise to Good Reason, such Company Holder delivers a "notice of termination" for Good Reason by such Company Holder to the Parent, and the Parent within 15 days following its receipt of such notification has failed to cure the circumstances giving rise to Good Reason.

"Greater Seller Management Stockholder" means, if only one Management Stockholder sells above his Management Sale Allowance, that Management Stockholder, and if both sell above their Management Sale Allowance, the Management Stockholder exceeding the Management Sale Allowance by the greatest percentage.

"Inductis Percentage" shall mean a fraction, the numerator of which is the number of shares of Common Stock then held by any such Company Holder and the denominator of which is the number of Company Restricted Shares.

"Inductis Restricted Shares" shall mean the number of shares of Common Stock held by the Company Holders as of the date of the Merger Agreement (subject to adjustment following a Capital Change (as defined in the Merger Agreement)), but shall not include restricted shares of Series B Common Stock of the Parent issued pursuant to Section 2.2 of the Merger Agreement or shares of Common Stock issued pursuant to Section 2.5(d)(i)of the Merger Agreement.

"Management Sale Allowance" shall mean during the two years following the date of the Merger Agreement, 33% of the number of shares of Common Stock held by a Management Stockholder as of March 13, 2006 (subject to adjustment following any Capital Change (as defined in the Merger Agreement)); and during the three years following the date hereof, 66% of the number of shares of Common Stock held by a Management Stockholder as of March 13, 2006 (subject to adjustment following any Capital Change (as defined in the Merger Agreement)).

"Management Stockholder", shall mean each of Vikram Talwar and Rohit Kapoor.

"Oak Hill", shall mean Oak Hill Capital Partners, L.P., a Delaware limited partnership, together with Oak Hill Capital Management Partners, L.P., a Delaware limited partnership.

"Person" shall mean an individual or a corporation, association, partnership, limited liability company, joint venture, organization, business, trust, or any other entity or organization, including a government or any subdivision or agency thereof.

"Preferred Stock" shall mean 42,844.23 shares of Preferred Stock of the Parent, $0.001 par value per share.

"Public Offering" shall mean an underwritten public offering and sale of equity securities of the Parent pursuant to an effective registration statement under the Securities Act.

"Securities Act" shall mean, as of any date, the Securities Act of 1933 and the rules and regulations promulgated thereunder, as amended.

“Shares” shall mean, collectively, all Preferred Stock and Common Stock of Parent subject to the Amended and Restated ExlService Holdings, Inc. Stockholders’ Agreement of an even date with the Merger Agreement (the “Stockholders Agreement”) (including Senior Management Restricted Stock and Junior Management Restricted Stock, as defined therein).

“Stockholders Agreement” shall mean the Amended and Restated ExlService Holdings, Inc. Stockholders Agreement, dated as of an even date with the Merger Agreement.

“Transfer” shall mean any transfer, sale, assignment, pledge, lease, hypothecation, mortgage, gift or creation of security interest, lien or trust (voting or otherwise) or other encumbrance or other disposition of any Shares. “Transferor” and “Transferee” have correlative meanings.

“Voting Stock” shall mean Common Stock or any class or classes of capital stock the holders of which are ordinarily entitled to vote for the election of corporate directors (or Persons performing similar functions).

ARTICLE II

REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE COMPANY HOLDERS

As an inducement to the Parent to enter into the Merger Agreement, each of the Company Holders represents and warrants as follows:

Section 2.1 Capitalization and Interests. I, together with my spouse, if applicable, and after giving effect to the exercise of the vested Company Options, am the sole beneficial and record owner and holder of the shares of Company Common Stock set forth on Annex II hereof, which at the Effective Time, will be free and clear of any liens, claims, pledges, options, rights of first refusal, agreements, preemptive rights, limitations on voting rights, charges and other encumbrances of any nature whatsoever (including, without limitation, restrictions on rights of disposition other than those imposed by applicable securities laws).

Section 2.2 Residence. I am an individual residing in the State listed opposite my name on Appendix II hereof.

Section 2.3 Purpose. The Parent Common Stock to be received pursuant to the Merger Agreement will be acquired for investment for my own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof (except as otherwise permitted by applicable law). I do not presently have any contract, understanding, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third party with respect to any of the Company Common Stock or, following the consummation of the transactions contemplated by the Merger Agreement, the Parent Common Stock (except as otherwise permitted by applicable law or as contemplated under the terms of the Merger Agreement).

Section 2.4 "Restricted Securities". I understand that the Parent Common Stock to be received pursuant to the Merger Agreement will be "restricted securities" under applicable federal and state securities laws. Accordingly I will not make any sale, transfer, or other disposition of such Parent Common Stock unless (i) such sale, transfer, or other disposition is within the applicable limitations of and in compliance with Rule 144 promulgated by the Securities and Exchange Commission (the "Commission") under the Securities Act, or (ii) some other exemption from registration under the Securities Act and any applicable state securities law is available with respect to any such proposed sale, transfer or other disposition of such Parent Common Stock, or (iii) such sale, transfer or other disposition of Parent Common Stock has been registered under the Securities Act. I have no present intention to sell or otherwise dispose of such Parent Common Stock and am acquiring such Parent Common Stock for investment and not with a view to resale or distribution.

Section 2.5 Additional Information. I have had the opportunity to ask questions of, and obtain any additional information reasonably available to Parent with respect to its plans, results of operations, financial condition, business, properties, assets or business prospects of Parent, and I have received all such information as I have deemed necessary and appropriate to enable me to evaluate the risks and merits of the Parent Common Stock to be received pursuant to the Merger Agreement.

Section 2.6 Documents Received. I acknowledge that I have previously received (A) a copy of this Company Holder Agreement and the Merger Agreement (including the Exhibits attached thereto), (B) a copy of Parent's audited consolidated financial statements for its fiscal years ended December 31, 2003, 2004 and 2005, (C) a copy of Parent's unaudited consolidated financial statements for its quarters ended March 31, 2005 and 2006 and (D) a copy of Parent's Confidential Information Memorandum dated June 30, 2006.

Section 2.7 Acceptance of Risk. I can look after my financial interests in connection with the Merger and I have such knowledge and experience in financial or business matters as to be able to evaluate the merits and risks of the Merger. I am able to suffer a complete loss on my investment in the Parent Common Stock.

Section 2.8 No Solicitation. I am not investing in the Parent Common Stock as a result of or subsequent to (i) any general solicitation or advertisement, article, notice or other communication published in any newspaper, magazine or similar medium or broadcast over radio or television or (ii) any seminar or meeting whose attendees have been invited by any general solicitation or general advertising.

Section 2.9 Legend. I understand that all certificates representing Parent Common Stock deliverable pursuant to the Merger Agreement will bear a legend substantially as follows:

"THE SHARES OF EXLSERVICE HOLDINGS, INC. SERIES A COMMON STOCK REPRESENTED BY THIS CERTIFICATE MAY NOT BE OFFERED, SOLD, PLEDGED, TRANSFERRED OR OTHERWISE DISPOSED OF EXCEPT IN

ACCORDANCE WITH THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, AS AMENDED, AND APPLICABLE STATE SECURITIES OR BLUE SKY LAWS."

Section 2.10 Stop Transfer Orders. I understand that Parent, in its discretion, may cause stop transfer orders to be placed with its transfer agent with respect to the certificates for the Parent Common Stock which are required to bear such legend.

Section 2.11 Accredited Investor. I have read the definition of "accredited investor" set forth on Annex I attached hereto and hereby represent (CHECK ONLY ONE OF (A) OR (B)):

A. ☐ I am NOT an "accredited investor" under that definition.

B. ☐ I am an "accredited investor" pursuant to one or more of the criteria set forth in that definition. If you check (B), please check on Annex I the specific criteria of the definition of "accredited investor" that apply to you.

Section 2.12 Representative. I hereby designate Sandeep Tyagi to act as my "Purchaser Representative" as such term is defined in Rule 501 of Regulation D promulgated under the Securities Act in connection with evaluating the merits and the risks of an investment in the Parent Common Stock. I hereby designate Sandeep Tyagi as my "Representative" as such term is used in the Merger Agreement and I recognize that the Representative is appointed, authorized and empowered to be the exclusive proxy, representative, agent and attorney-in-fact of myself and of each of the Company Holders, with full power of substitution and resubstitution (and such power of attorney being deemed to be an irrevocable power coupled with an interest), to undertake all actions and responsibilities as specified in Section 9.6 of the Merger Agreement. All authority conferred or agreed to be conferred in this Company Holder Agreement and all of my obligations hereunder will be binding upon my successors, assigns, heirs, executors, administrators, trustees in bankruptcy and legal representatives (collectively, "Successors-in-Interest") and will not be affected by, and will survive, my death, incapacity or bankruptcy. I acknowledge and agree that Parent, the Surviving Corporation, and any other person may conclusively and absolutely rely, without inquiry, upon any action of the Representative as my action in all matters referred to in the Merger Agreement. I agree that the Representative shall have full power and authority to represent me with respect to all matters arising under the Merger Agreement and such representation shall be binding upon me, as if expressly confirmed and ratified in writing by me. The Parent and the Surviving Corporation may rely on the Representative as my exclusive agent and shall incur no liability to any party with respect to any action taken or suffered by it in reliance thereon.

Section 2.13 Release. By executing this Agreement, I hereby release, on my own behalf and on behalf of my successors and assigns, the Company, Merger Sub and Parent, and their respective affiliates, directors, officers, employees, partners, members, agents, advisors and representatives, and their respective successors and assigns, from any and all claims, actions, causes of action, suits, damages, judgments, expenses, demands and other obligations or liabilities whatsoever, in law or in equity, arising out of, in connection with or by reason of, the purchase or ownership of the shares of Company Common Stock held by me, the delivery of the share certificates surrendered in connection with the Merger, the sale of such Company Common Stock pursuant to the Merger Agreement or the cancellation of the share certificates surrendered in connection with the Merger in exchange for the right to receive the portion of the Merger consideration allocated to the shares represented by such certificates, including, but not limited to, the allocation of the kind and amount of the Merger consideration among the shares of capital stock of the Company as described in Section 2.1 of the Merger Agreement; provided that the foregoing shall not release Parent from its obligation to deliver the allocable portion of the Merger consideration in respect of each share of Company Common Stock formerly represented by the certificate in exchange therefor in accordance with the terms of the Merger Agreement.

Section 2.14 Acknowledgement. (a) I acknowledge and understand that the representations, warranties and covenants set forth herein shall be relied upon by Parent, and its affiliates, counsel and accounting firms, and that substantial losses and damages may be incurred by such persons if those representations, warranties or covenants are breached or are incorrect or untrue. I have carefully read this Letter, including Annex I attached hereto, and the Merger Agreement and have had an opportunity to discuss the requirements of this Letter with professional advisors to the extent I have deemed it necessary. (b) Furthermore, I agree and acknowledge that by executing and delivering this Company Holder Agreement, I acknowledge and agree that the indemnification obligations and procedures set forth in Article VIII of the Merger Agreement shall be binding on me and my Successors-in-Interest to the same extent as if the full text thereof appeared in this Section 2.13 in its entirety and as if I were a signatory to the Merger Agreement. Without limiting the foregoing, I hereby expressly consent and agree to be subject to the provisions of Sections 8.2, 8.3, 8.6, 8.8 and 8.9 of the Merger Agreement and agree that my right to receive my portion of the Merger Consideration, including any right to receive Earnout Payments, the Upside Payment and any amounts payable under Section 5.14 of the Merger Agreement shall be subject to the indemnification provisions of Article II of this Company Holder Agreement and Article VIII of the Merger Agreement. (c) Furthermore, I agree to indemnify, defend and hold harmless the Parent and its Subsidiaries (including the Surviving Corporation), their Affiliates and their respective directors, officers, employees, advisors, successors and assigns (collectively, the "Parent Indemnified Parties") from and against any and all claims, losses, liabilities, damages, deficiencies, judgments, assessments, fines, settlements, costs or expenses (including interest, penalties and fees, expenses and disbursements of attorneys, experts, personnel and consultants) ("Losses") based upon, arising from or relating to any breach of any representation, warranty or covenant in Article II above.

ARTICLE III

TRANSFERS

Section 3.1 General Restrictions. Except as otherwise permitted herein from and after the consummation of Parent's initial Public Offering and the consequent termination of the Stockholders Agreement, no Company Holder shall Transfer, directly or indirectly, all or any portion of his Shares, or rights to income or other attributes with respect to his Shares, it being understood that any such Transfer or issuance not in accordance with this Section 4.01 or the remainder of Article IV will be deemed to constitute a Transfer by such Company Holder in violation of this Agreement, shall be void ab initio and the Parent shall not recognize any such Transfer.

Section 3.2 Permitted Transfers. Except as otherwise specified herein, the provisions of Section 4.01 shall not apply to the following Transfers of Shares by a Company Holder (each of which shall be deemed to constitute a "Permitted Transfer," each Transferee of a Permitted Transfer of Shares being referred to herein as a "Permitted Transferee"):

(a) after the first anniversary of the Merger Agreement each such person may make Transfers of up to 33 1/3% of his Inductis Percentage of Inductis Restricted Shares; after the second anniversary of the Merger Agreement each such Stockholder may make Transfers of up to 33 1/3% of his Inductis Percentage of Inductis Restricted Shares plus any shares of Common Stock that such Stockholder could have transferred under this Section 4.02(a) after the first anniversary but prior to the second anniversary but did not Transfer; and after the third anniversary of this Agreement each such Stockholder may make Transfers of up to 33 1/3% of his Inductis Percentage of Inductis Restricted Shares, plus any shares of Common Stock that such Stockholder could have transferred under this Section 4.02(a) after the first anniversary but prior to the third anniversary but did not Transfer. The Transfer restrictions in this Section 4.02(a) shall terminate: (i) in the event of such Person's disability or termination of employment with the Parent or its subsidiaries without Cause or for Good Reason or (ii) in the event of a Change of Control of the Parent. If either Management Stockholder sells in excess of the Management Sale Allowance of such Management Stockholder in effect at any time, then the amount that may be sold pursuant to this Section 4.02(a) by each Company Holder shall be increased by multiplying the amount that each Company Holder may sell by a fraction, the numerator of which is the cumulative number of shares sold by the Greater Selling Management Stockholder since the date of the Merger Agreement and the denominator of which is the Management Sale Allowance of the Greater Selling Management Stockholder then in effect. For purposes of determining the total number of shares of Common Stock sold by a Management Stockholder under the immediately preceding sentence, any sale of stock by the Management Stockholders for the purpose of payment of taxes arising in connection with the exercise of options by the Management Stockholders shall be disregarded. In the event that either Management Stockholder sells in excess of his Management Sale Allowance in effect at any time, the Parent shall promptly give the Company Holders notice of such sale in accordance with Section 6.03 hereof, which notice shall set forth the amount that each of Company Holder may sell pursuant to this Section 4.02(a). Notwithstanding anything to the contrary in this Section 4.02(a), if neither Management Stockholder sells in excess of 6% of the aggregate number of shares of Common Stock held by them as of March 13, 2006 during the first year following the date of the Merger Agreement, then each Company Holder may not sell any Shares held by them during the first year after the date hereof; but if either Management Stockholder sells in excess of 6% of the aggregate number of shares of Common Stock held by them as of March 13, 2006 during the first year following the date of the Merger Agreement, then each Company Holder may sell, during the first year after the date hereof, a percentage of the Shares held by them equal to the (i) percentage of shares of Common Stock so held by the Greater Management Stockholder and sold by the Greater Selling Management Stockholder minus (ii) 6%. For purposes of computing the total number of shares of Common Stock that may be sold by a Company Holder, all sales made by Company Holders and the Management

Stockholders while the Stockholders Agreement was in effect following the date of the Merger Agreement shall be aggregated with sales made after the consummation of the Parent's initial Public Offering.

(b) Any Transfer of any Earnout Shares (as defined in the Merger Agreement) made in shares of Common Stock 12 months after receipt thereof; Notwithstanding the aforementioned, the Transfer restrictions in this Section 4.02(b) shall terminate: (i) in the event of such Person's disability or termination of employment with the Parent or its subsidiaries without Cause or for Good Reason or (ii) in the event of a Change of Control of the Parent.

(c) any Transfer upon the death of such Company Holder through testamentary or intestate disposition;

(d) any Transfer with the consent of the majority of the members of the Board, which shall be granted or withheld in its sole discretion;

(e) any Transfer made to an Affiliate of such Company Holder who remains an Affiliate of such Company Holder after such Transfer; and

(f) any Transfer made to the spouse or lineal descendant of such Company Holder that is an individual or a trust established for the benefit of any of the foregoing; and

ARTICLE IV

TERMINATION, AMENDMENT AND WAIVER

Section 4.1 Termination. This Company Holder Agreement shall terminate and be of no further force and effect upon termination of the Merger Agreement at any time prior to the Effective Time of the Merger.

Section 4.2 Effect of Termination. In the event of termination of this Company Holder Agreement as provided in Section 5.01, this Company Holder Agreement shall forthwith become void and there shall be no liability on any party hereto and nothing herein shall relieve any party hereto from liability for any willful breach of this Seller Agreement.

Section 4.3 Amendment. This Company Holder Agreement may not be amended or modified except (a) by an instrument in writing signed by, or on behalf of, the parties hereto or (b) by a waiver in accordance with Section 5.04.

Section 4.4 Waiver. Either the Representative or the Parent may (a) extend the time for the performance of any of the obligations or other acts of the other party, (b) waive any inaccuracies in the representations and warranties of the other party contained herein or in any document delivered by the other party pursuant hereto or (c) waive compliance with any of the agreements of the other party or conditions to such party's obligation contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by or on behalf of the party to be bound thereby. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach or a subsequent waiver of the same term or condition, or a waiver of any other term or condition of this Company Holder Agreement.

ARTICLE V

GENERAL PROVISIONS

Section 5.1 GOVERNING LAW. THIS AGREEMENT SHALL BE INTERPRETED, CONSTRUED AND GOVERNED BY THE DGCL AS TO MATTERS WITHIN THE SCOPE THEREOF, AND AS TO ALL OTHER MATTERS THIS AGREEMENT SHALL BE SHALL BE ENFORCED, GOVERNED AND CONSTRUED IN ALL RESPECTS IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND TO BE WHOLLY PERFORMED BY SUCH STATE.

Section 5.2 Consent to Jurisdiction. Each of the parties, and by their approval of the Merger and the approval of the form of the Merger Agreement and by their execution and delivery of this Company Holder Agreement and of the Letter of Transmittal, submits to the jurisdiction of any state or federal court sitting in New York County, New York, in any action, suit or proceeding arising out of or relating to this Agreement and/or the Merger Agreement and agrees that all claims in respect of the action or proceeding may be heard and determined in any such court. Each party also agrees not to bring any action or proceeding arising out of or relating to this Agreement in any other court. Each party and each Company Holder waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought and waives any bond, surety, or other security that might be required of any other party with respect thereto.

Section 5.4 Notices. Any notices or other communications required under this Company Holder Agreement shall be in writing and be deemed effectively given (i) upon delivery, if given by hand delivery, (ii) upon confirmed, facsimile transmission when sent by facsimile during normal business hours of the recipient (or if not so confirmed, the next Business Day) or (iii) the next Business Day, if delivered by a nationally recognized overnight courier. Any such notices or other communications shall be given at the addresses or facsimile numbers set forth below, with copies provided as follows:

if to the Parent or Merger Sub:

ExlService Holdings, Inc.
350 Park Avenue
New York, New York 10022
Attention: Legal Department
Fax: (212) 277-7111

with copies to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, New York 10019-6064
Attention: Carl Reisner, Esq.
Fax: (212) 492-0017

if to the Company:

Company, Inc.
571 Central Ave, Suite 105
New Providence, New Jersey 07974-1547
Attention: Sandeep Tyagi
Fax: (908) 508-7811

with copies to:

Lowenstein Sandler PC
65 Livingston Avenue
Roseland, New Jersey
Attention: Edward M. Zimmerman, Esq.
Fax: (973) 597-2569

if to the Company Holders, at each individual address listed in Annex II.

or to such other persons or addresses as may be designated in writing by the party to receive such notice as provided above.

Section 5.6 Entire Agreement. This Company Holder Agreement, the Merger Agreement, the Company Disclosure Letter and the Parent Disclosure Letter constitute the entire agreement and supersede all other prior agreements, understandings, representations and warranties, both written and oral, among the parties, with respect to the subject matter of this Agreement.

Section 5.8 No Third Party Beneficiaries. This Agreement is not intended to confer upon any person other than the parties to this Agreement any rights or remedies under this Agreement.

Section 5.10 Severability. The provisions of this Company Holder Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability or the other provisions of this Company Holder Agreement. If any provision of this Company Holder Agreement, or the application of that provision to any person or any circumstance, is invalid or unenforceable, (a) the parties shall negotiate in good faith a suitable and equitable provision to substitute for that provision in order to carry out, so far as may be valid and enforceable, the intent and purpose of the invalid or unenforceable provision and (b) the remainder of this Company Holder Agreement and the application of the provision to other persons or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of the provision, or the application of that provision, in any other jurisdiction.

Section 5.12 Interpretation. This Company Holder Agreement has been negotiated by the respective parties hereto and their attorneys and the language hereof will not be construed for or against either party. A reference to an Article, Section or an Exhibit or Schedule will mean an Article or Section in, or Exhibits or Schedule to, this Agreement unless otherwise explicitly set forth. The definitions in this Agreement shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. All Schedules and Exhibits attached hereto shall be deemed incorporated herein as if set forth in full herein and, unless otherwise defined therein, all terms used in any Schedule or Exhibit shall have the meaning ascribed to such term in this Agreement. The words "*include*," "*includes*" and "*including*" shall be deemed to be followed by the phrase "*without limitation*." All accounting terms not defined in this Agreement shall have the meanings determined by U.S. GAAP. The words "*hereof*," "*herein*" and "*hereunder*" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

Section 5.14 Assignment. This Agreement shall not be assignable by operation of law or otherwise, except that the Parent may after the Effective Time assign its rights hereunder and may prior to the Effective Time designate, by written notice to the Company, a Parent Subsidiary that is wholly owned, directly or indirectly, by the Parent to be merged with and into the Company in lieu of Merger Sub, in which event all references in this Company Holder Agreement to Merger Sub shall be deemed references to such Parent Subsidiary.

Section 5.16 Specific Performance. The parties to this Company Holder Agreement agree that irreparable damage would occur in the event that any of the provisions of this Company Holder Agreement were not performed in accordance with their specific terms or were otherwise reached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Company Holder Agreement and to enforce specifically the terms and provisions of this Agreement in any court of competent jurisdiction under this Company Holder Agreement, this being in addition to any other remedy to which they are entitled at law or in equity.

IN WITNESS WHEREOF, this Company Holder Agreement has been duly executed and delivered by the duly authorized officers of the parties to this Company Holder Agreement as of the date first written above.

EXLSERVICE HOLDINGS, INC.

By: /s/ Rohit Kapoor
Name: Rohit Kapoor
Title: President

EXLSERVICE MERGER SUB INC.

By: /s/ Rohit Kapoor
Name: Rohit Kapoor
Title: President

INDUCTIS, INC.

By: /s/ Max Polaner
Name: Max Polaner
Title: Chief Financial Officer

COMPANY HOLDERS:

/s/ Sandeep Tyagi
Sandeep Tyagi, individually and as Representative

/s/ Alexander A. Kloubek
Alexander A. Kloubek

/s/ Amanjeet Singh Saluja
Amanjeet Singh Saluja

/s/ Ankor Rai
Ankor Rai

/s/ Anthony Brock
Anthony Brock

/s/ Arnab Dey
Arnab Dey

/s/ Arup Chakraborty
Arup Chakraborty

/s/ Brian Paris
Brian Paris

/s/ Brijesh Goyal
Brijesh Goyal

/s/ David Sokal
David Sokal

/s/ Dinesh Chawla
Dinesh Chawla

/s/ Gaurav Gupta
Gaurav Gupta

/s/ Inderpreet Singh Batra
Inderpreet Singh Batra

/s/ Kal Bittianda
Kal Bittianda

/s/ Lalit Wangikar
Lalit Wangikar

/s/ Martin Ahrens
Martin Ahrens

/s/ Max Polaner
Max Polaner

/s/ Melinda L. Wright
Melinda L. Wright

/s/ Puneet Shivani
Puneet Shivani

/s/ Raja Sengupta
Raja Sengupta

/s/ Ritesh Aggarwal
Ritesh Aggarwal

/s/ Siddhesh Karmali
Siddhesh Karmali

/s/ Stephen Abseck
Stephen Abseck

/s/ Siddhesh Karmali
Siddhesh Karmali

/s/ Sudip Chakraborty
Sudip Chakraborty

/s/ Vijay Parekh
Vijay Parekh

/s/ Vivek Jetley
Vivek Jetley

Note: The Registrant has omitted the following annexes to this agreement pursuant to Item 602(b)(2) of Regulation S-K and agrees to furnish supplementally a copy of any omitted annex to the Securities and Exchange Commission upon request:

Annex I
Annex II

AVIVA

Norwich Union Customer Services (Singapore) Pte Ltd

NORWICH UNION CUSTOMER SERVICES (SINGAPORE) PTE LTD ("NUCSS") to

EXLSERVICE HOLDINGS, INC ("EXL Inc")
EXL SERVICE.COM (INDIA) PRIVATE LIMITED ("EXL India")
NOIDA CUSTOMER OPERATIONS PRIVATE LIMITED ("NCOP")

July 17, 2006

Dear Sirs,

I refer to various agreements between us and dated 26th August 2004. These relate to the establishing by you of NCOP as a company to be used to provide insurance services to NUCSS and set out the terms on which such services are to be provided to NUCSS.

Pursuant to a Virtual Shareholders Agreement ("VSA") dated 26th August 2004 and made between NUCSS, EXL Inc. EXL India and NCOP, it was agreed that NUCSS would have the option of purchasing all the Shares of NCOP from EXL Inc by giving six months' notice of its intention to do so. Pursuant to clause 10 of the VSA, such notice is not to be given less than 30 months after the date of an insurance Services Framework Agreement ("ISFA") dated 26th August 2004 and made between NUCSS and EXL Inc unless that ISFA has been terminated earlier by NUCSS according to clause 15 thereof. Clause 11 of the VSA gives EXL Inc the option of requiring NUCSS to purchase the shares of NCOP where EXL Inc has terminated the ISFA pursuant to clause 15 aforesaid. Where NUCSS is to acquire the shares in NCOP, whether as a result of the exercise of the option by it or by EXL Inc. the sale of those shares shall be concluded in accordance with a Share Sale & Purchase Agreement (("SSPA") to be entered into by the parties in the agreed form set out in Appendix 1 of the VSA.

Capitalised terms not expressly defined in this letter shall, unless otherwise specified or inconsistent with the context, have the meanings ascribed to them in the ISFA.

It is agreed as follows:

a) Notwithstanding clause 10 of the VSA, it has been agreed by the parties that NUCSS shall not exercise its option to acquire the shares in NCOP earlier than 1st January 2008 which means that NUCSS will not serve an option notice pursuant to clause 10.2 of the VSA before 1st July 2007.

b) Notwithstanding a) above, the parties have agreed that 3 calendar months after the service of the option notice pursuant to clause 10.2 of the VSA, day to day operational management of NCOP shall transfer to NUCSS. Such a transfer of operational management shall have no impact on the Charges, in particular the Management Fee (which shall continue to be paid in accordance with Schedule 3 of the ISFA).

c) Notwithstanding the terms of the ISFA no Insurance Service Work Order shall be terminated for convenience before 1st July 2007.

d) In consideration for the above, EXL Inc shall waive in its entirely NUCSS's liability for payment of the Break Option fee for (i) termination of any Insurance Service Work Order under Clause 14.4 of the ISFA provided six months notice is given and that such termination of insurance Services Work Order is effected on or after 1st July 2007 or (ii) on termination of the ISFA on Completion of the SSPA.

e) It is further agreed by the parties that, with effect from the date that a copy of this letter has been signed by EXL Inc. EXL India and NCOP, the agreed form SSPA in Appendix 1 of the VSA shall be replaced by a new SSPA as attached to this letter. This letter shall constitute the parties' written consent pursuant to clauses 16.4 of the VSA and 9.6.2 of an Umbrella Agreement dated 26th August 2004 between NUCSS. EXL Inc. EXL India and NCOP to the amendment of the VSA by the substituting of the SSPA in Appendix1 of the VSA with the SSPA attached hereto. In all other respects, the VSA shall continue to have full force and effect.

This letter may be executed in any number of counterparts, each of which, when executed and delivered, will be an original, and all the counterparts together will constitute one and the same istrument. The parties agree to accept delivery of an executed counterpart by facsimile transmission.

Kindly confirm your agreement to the terms of this letter by countersigning the enclosed copy and returning It to me.

Yours faithfully

Authorised Signatory & Director
NUCSS

On behalf of
I agree to the terms of this letter.

Authorised Signatory & Director
EXLSERVICE HOLDINGS, INC

On behalf of
I agree to the terms of this letter.

Authorised Signatory & Director
EXL SERVICE.COM (INDIA) PRIVATE LIMITED

On behalf of
I agree to the term of this letter.

Authorised Signatory & Director
NOIDA CUSTOMER OPERATIONS PRIVATE LIMITED
EXLSERVICE HOLDINGS, INC

DATED

(1) EXLSERVICE HOLDINGS, INC

(2) NORWICH UNION CUSTOMER SERVICES (SINGAPORE) PTE LTD

SHARE SALE AND PURCHASE AGREEMENT
(RELATING TO NOIDA CUSTOMER OPERATIONS PRIVATE LIMITED)

CONTENTS

SHARE SALE AND PURCHASE AGREEMENT

Dated:

BETWEEN:

(1) **Exlservice Holdings, Inc,** a company registered in the State of Delaware and having its principal office at 350 Park Avenue, 10th Floor, New York, NY 10022 ("EXL Holdings (US)"); and

(2) **Norwich Union Customer Services (Singapore) Pte Ltd,** a company registered in Singapore with registered number 200303457R and whose registered office is at 4 Shenton Way, #27-02 SGX Centre 2, Singapore 068807 (the "Client").

1 DEFINITIONS AND INTERPRETATION

In this Agreement, unless inconsistent with the context or otherwise specified:

1.1 the following expressions have the following meanings:

"Accounts"	:	the most recent audited consolidated balance sheet and audited consolidated profit and loss account of SPV, and the directors' report and other documents annexed to them;
"this Agreement"	:	this agreement, as varied from time to time in accordance with its terms, and including all schedules and appendices;
"Asset Funding"	:	an amount representing any pre-payment provided by the Client to EXL Holdings (US) or the SPV for the provision of assets which has not been written down to nil in the books of EXL Holdings (US) or the SPV (as the case may be) prior to Completion;
"Auditors"	:	Ernst & Young or any other firm of auditors appointed by SPV from time to time with the prior written consent of the Client;
"Business Day"	:	a day other than a Saturday or Sunday or public holiday in the United Kingdom, United States of America and in India;
"Completion"	:	completion of the sale and purchase of the Shares in accordance with clause 6;
"Encumbrance"	:	a mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third party right or interest, other encumbrance or security interest of any kind, or another type of preferential arrangement (including, without limitation, a title transfer and retention arrangement) having similar effect but excluding any such encumbrance imposed by the Government of India otherwise than as a result of any act or omission of EXL Holdings (US);

"Government of India"	:	shall mean any government, regulatory authority, governmental department, agency, commission, board, tribunal or court or other law, rule or regulation-making entity, having or purporting to have jurisdiction on behalf of the Republic of India, or province or state or other subdivision thereof or any municipality, district or other subdivision thereof;
"Independent Accountants"	:	Deloitte & Touche or such other firm of accountants as may be nominated by agreement of all the Parties;
"Insurance Services Framework Agreement"	:	means an agreement dated 26th August 2004 and made between the Client and EXL Holdings (US);
"Insurance Services Work Order"	:	has the meaning given to it in schedule 1 of the Insurance Services Framework Agreement;
"Last Accounting Date"	:	the date to which the Accounts were made up;
"Net Asset Value" or "NAV"	:	the aggregate value of the assets- (a) less the aggregate value of the liabilities, and (b) less any Asset Funding. in each case of the SPV as at the close of business on the date of Completion, as determined by the Auditors pursuant to clause 4. For the avoidance of doubt, any items of capital expenditure by or on behalf of the SPV which have not previously been approved in accordance with the Budget Process set out in Part B of Schedule 3 of the Insurance Services Framework Agreement shall be disregarded for the purposes of determining the NAV. Further, for the purposes of determining the NAV, all the capital assets of NCOP shall be depreciated over a period of 3 years
"Parties"	:	The parties to this Agreement; and "Party" means either one of them;
"Properties"	:	the property or properties owned, used or occupied by the SPV as at the date of this Agreement;
"Shares"	:	all of the issued shares in the capital of SPV;
"SPV"	:	Noida Customer Operations Private Limited a private company limited by shares incorporated in India under registered number U72900DL2003PTC122175 and whose registered office is at 103A Ashoka Estate,

		Barakhamba Road, New Delhi 110 001;
"Tax Authority"	:	Any local, municipal, governmental, state, federal or other fiscal or revenue authority, body or official anywhere in the world (which shall include reference to customs and excise authorities) competent to impose Taxation;
"Tax or Taxation"	:	Includes any form of taxation, levy, duty, charge, contribution or impost of whatever nature (including any applicable fine, penalty, surcharge or interest) imposed by a Tax Authority;
"Umbrella Agreement"	:	the umbrella agreement, dated 26th August 2004, between (1) the Client, (2) EXL Holdings (US), (3) EXL (India) and (4) the SPV;
"Virtual Shareholders' Agreement"	:	The virtual shareholders' agreement, dated 26th August 2004, between (1) the Client, (2) EXL Holdings (US), EXL India and (4) the SPV;
"Warranties"	:	the warranties set out in clause 7 and schedule 1; and

1.2 the provisions of clauses 1.2 to 1.14 of the Virtual Shareholders' Agreement shall apply to this Agreement as they apply to the Virtual Shareholders' Agreement.

2 PRELIMINARY STATEMENTS

2.1 This Agreement is entered into pursuant to the Virtual Shareholders' Agreement.

2.2 EXL Holdings (US) warrants to the Client that 9,999 ordinary shares of SPV are owned by EXL (India) and one share is held by Rajiv Kishan Luthra (as nominee of EXL (India)) and that it can procure the sale of those shares to the Client.

2.3 EXL Holdings (US) wishes EXL (India) to sell and the Client wishes to buy the Shares on the terms and subject to the conditions of this Agreement.

3 SALE AND PURCHASE

3.1 EXL Holdings (US) shall procure the sale by EXL (India) of the Shares as beneficial owner and the Client shall buy the Shares free from any Encumbrance, and together with all rights now and hereafter attaching or accruing to them and all dividends and distributions declared, made or paid on or after the date of Completion.

3.2 The Client shall not be obliged to complete the purchase of any of the Shares unless the purchase of all of the Shares is completed simultaneously. However, completion of the purchase of some of the Shares will not affect the rights of the Client with respect to the others.

3.3 For so long after Completion as EXL (India) remains the registered holder of any of the Shares, EXL Holdings (US) shall procure that EXL (India) holds them and any distributions, property and rights deriving from them in trust for the Client and shall deal with the Shares and any distributions, property and rights deriving from them as the Client directs.

4 CONSIDERATION

4.1 The consideration for the Shares ("the Consideration") shall comprise the Net Asset Value.

4.2 Not less than 15 Business Days prior to Completion, EXL Holdings (US) shall deliver to the Client a bona fide written estimate of the likely Net Asset Value as at Completion ("the Provisional Consideration"), whereupon the Parties shall negotiate in good faith to determine the amount of Provisional Consideration to be paid at Completion by the Client pursuant to clause 6.2. If the parties are unable to agree upon the amount of Provisional Consideration within five Business Days of the receipt by the Client of the aforementioned estimate, then the issue shall be referred to the Independent Accountants for determination in accordance with the terms of this Agreement and, in particular, clauses 4.7 and 4.8 below.

4.3 The Client shall procure that the Auditors shall determine the Net Asset Value and deliver to EXL Holdings (US) a draft statement of the Net Asset Value as soon as practicable after Completion and, in any event, within 30 Business Days after the date of Completion. Insofar as it relates to NAV, the statement shall be drawn up from the accounting records of the SPV on a going concern basis in accordance with:

4.3.1 the accounting policies set out in clause 4.4;

4.3.2 (to the extent not inconsistent with clause 4.3.1) the accounting policies, estimation techniques and measurement bases used for the preparation of the Accounts; and

4.3.3 (to the extent not inconsistent with clauses 4.3.1 and 4.3.2) US generally accepted accounting principles as at the date of Completion.

4.4 The policies mentioned in clause 4.3.1 are as follows:

4.4.1 no value shall be attributed to intangible assets;

4.4.2 the value attributed to any asset which was acquired by the SPV to replace a destroyed or lost asset shall be the value which would have been attributed to the destroyed or lost asset had it not been destroyed or lost.

4.5 EXL Holdings (US) shall be entitled (but not obliged), at its own cost, to undertake (or procure its accountants to undertake) a review of the statement delivered to it under clause 4.3 and the Client shall provide to EXL Holdings (US) and its accountants all reasonable assistance reasonably required by EXL Holdings (US) and/or (as the case may be) its accountants in order to enable EXL Holdings (US) to exercise its rights under this clause 4. EXL Holdings (US) shall be entitled to notify the Client that it disagrees with the draft statement of NAV, any such notification to give reasons in detail for such disagreement and, if such review is undertaken by EXL Holdings (US)'s accountants, to be accompanied by a letter from those accountants supporting such disagreement and such reasons. EXL Holdings (US) shall not be entitled to give such notification to the Client at any time after the date 20 Business Days after delivery to it of the draft statement and following such date EXL Holdings (US) shall in the absence of any prior notification be deemed to have agreed such draft statement in the form delivered to it.

4.6 In the event that a notification of disagreement is given to the Client in accordance with clause 4.5, the Parties shall (in conjunction with the Auditors and (if relevant) EXL Holdings (US)'s accountants) meet and discuss EXL Holdings (US)'s objections to the draft statement referred to in the notification (and any other matters which are raised by the Client) in order to seek to reach agreement upon such adjustments (if any) to the draft statement of the NAV as are acceptable to the Parties so as to enable such draft to be finalised.

4.7 If the Parties are unable to resolve any differences of views within 15 Business Days following the receipt by the Client of the notification of disagreement pursuant to clause 4.5, the matters in dispute shall be referred to the Independent Accountants for determination. The Independent Accountants shall act as experts and not as arbitrators and their decision (in the absence of manifest error) shall be final and binding on the Parties. The fees of the Independent Accountants shall be payable by the Parties in such proportions as the Independent Accountants determine.

4.8 The Independent Accountants shall decide the procedures to be followed in the determination, but the following provisions shall apply in any event:

4.8.1 the outstanding matters in dispute shall be notified to the Independent Accountants in writing by the Client and/or EXL Holdings (US) within five Business Days of the Independent Accountants' appointment;

4.8.2 the Independent Accountants' terms of reference shall be to determine the outstanding matters in dispute, including the finalisation of the form and content of the statement of the NAV, taking into account the provisions of this Agreement, within 15 Business Days of receipt of each Party's submissions referred to in clause 4.8.5, or as soon as practicable afterwards;

4.8.3 EXL Holdings (US) and/or EXL Holdings (US)'s accountants and the Client and/or the Auditors shall each promptly prepare a written statement setting out their respective positions on the matters in dispute ("Opening Submissions") and shall, within 10 Business Days of the appointment of the Independent Accountants, deliver to them two copies of their respective Opening Submissions (together with any necessary and relevant supporting documentation);

4.8.4 the Parties shall procure that, upon receipt of both Parties' Opening Submissions, the Independent Accountants shall arrange for a copy of EXL Holdings (US)'s Opening Submissions to be delivered to the Client, and a copy of the Client's Opening Submissions to be delivered to EXL Holdings (US);

4.8.5 within 10 Business Days of such delivery, the Parties shall each comment in writing on the Opening Submissions and documentation submitted by the other Party ("Submissions in Reply"), and two copies of such Submissions in Reply shall be addressed and delivered to the Independent Accountants; and

4.8.6 the Parties shall procure that, upon receipt of both Parties' Submissions in Reply, the Independent Accountants shall arrange for a copy of EXL Holdings (US)'s Submissions in Reply to be delivered to the Client, and a copy of the Client's Submissions in Reply to be delivered to EXL Holdings (US).

4.8.7 the Parties shall require the Independent Accountants to deliver their decision in writing to each of the Parties as soon as possible after each of the Parties has complied with its obligations under this clause 4.8 and, in any event, within 15 business days of both Parties complying with 4.8.5 and any request made by the Independent Accountants pursuant to clause 4.9. below.

4.9 The Parties shall co-operate with the Independent Accountants and comply with any reasonable requests made in connection with the carrying out of their duties under this Agreement.

4.10 Nothing in this clause 4 shall entitle a Party or the Independent Accountants access to any information or document which is protected by legal professional privilege, or which has been prepared by the other Party or its accountants and other professional advisers with a view to assessing the merits of any claim or argument.

4.11 The determination pursuant to 4.7 of the Net Asset Value shall not adversely affect, limit or prejudice or constitute a waiver of any right or remedy of the Client in relation to any claim which it may have against EXL Holdings (US) in respect of any breach of any of the Warranties or under any of the other provisions of this Agreement.

4.12 If the aggregate amount, as agreed by the Parties pursuant to clause 4.5 above or determined pursuant to clause 4.7 above is:-

4.12.1 greater than the amount of the Provisional Consideration paid pursuant to clause 6.2 below, the Client shall, within seven business days of such agreement or determination, pay the amount of the difference by telegraphic transfer for same day value to the bank account nominated by EXL Holdings (US) for this purpose; or

4.12.2 less than the amount of the Provisional Consideration paid pursuant to clause 6.2 below, EXL Holdings (US) shall, within seven business days of such agreement or determination, pay to the Client the amount of the difference by telegraphic transfer for same day value to the bank account nominated by the Client for this purpose.

5 CONDITION PRECEDENT

5.1 Completion is conditional upon the obtaining of any regulatory consent to the completion of the matters contemplated by this Agreement on or before the date 120 Business Days after the date of this Agreement (or such later date as the Parties may agree in writing):

5.2 Each of the Parties shall use its reasonable endeavours to ensure that the condition specified in clause 5.1 is satisfied as soon as possible and, in any event, not later than the date specified in that clause.

5.3 If the condition set out in clause 5.1 shall not have been fully satisfied by the date specified in that clause, or if such condition shall cease to be capable of being satisfied by that date, then this Agreement shall immediately lapse and cease to have effect and neither Party shall have any claim against the other in respect of this Agreement except in relation to any prior breach of this Agreement.

5.4 Despite clause 5.1, each of the Parties shall perform and observe its obligations under this Agreement which, expressly or by implication, are required to be performed or observed at any time prior to the earlier of (a) the time when this Agreement lapses in accordance with clause 5.3 and (b) the fulfilment of the condition set out in clause 5.1.

6 COMPLETION

6.1 Completion shall take place at the Client's registered office at 10.00 am on the next month end after the date 20 Business Days after the date of this Agreement or at such other place, time or day as shall be mutually agreed between the Parties.

6.2 On Completion, the Parties will comply with their respective obligations in schedule 2 and the Client shall pay the Provisional Consideration by telegraphic transfer for same day value to the bank account nominated by EXL Holdings (US) for this purpose.

6.3 If any of the requirements of schedule 2 (to the extent not previously waived in terms of this Agreement) are not complied with on the date fixed for Completion, the Client may (without prejudice to its other rights and remedies, including the right to claim damages for the breach):

6.3.1 defer Completion to a date not more than 30 days after such date (and so that the provisions of this clause 6.3 shall apply to Completion as so deferred); or

6.3.2 proceed to Completion so far as practicable (without prejudice to its rights under this Agreement); or

6.3.3 rescind this Agreement without liability on its part; or

6.3.4 waive all or any of the obligations in question.

7 WARRANTIES

7.1 EXL Holdings (US) warrants to the Client in the terms set out in schedule 1 subject as provided in this clause 7 and clause 8 and further that the Warranties shall be true and accurate in all material respects and fulfilled down to Completion in all material respects as if they had been made or given at Completion (on the basis that references in the Warranties to any fact, matter or thing existing, occurring or having occurred at or on and/or before or after (and similar terms) the date of this Agreement shall be construed as references to it having so done at or on and/or before or after (and similar terms) the date of Completion).

7.2 EXL Holdings (US) is aware and acknowledges that the Client has entered into this Agreement in reliance on the Warranties.

7.3 The Warranties are given subject to any matters fully and fairly disclosed in the disclosure letter which EXL Holdings (US) may deliver to the Client not later than 10 Business Days after the date of this Agreement, provided that (a) such matters have arisen in the ordinary course of the business of the SPV carried on in all material respects in compliance with the terms of the Virtual Shareholders' Agreement and the Agreements (as that expression is defined in the Virtual Shareholders' Agreement); and (b) the reduction in the value of the assets of the Group, the liabilities or increased liabilities of the Group or the reduction in the value of the Shares (as the case may be) arising, directly or indirectly, from such matters is less than £100,000. The letter shall be in the form set out in schedule 3. If any matter is disclosed in the letter which, if not disclosed, would have constituted a material breach of any of the Warranties, the Client may at any time before Completion, by written notice to EXL Holdings (US), rescind this Agreement and none of the Parties shall have any claim against the other in respect of this Agreement except in relation to any prior breach of this Agreement.

7.4 The rights and remedies of the Client in respect of any breach of the Warranties shall not be affected by Completion.

7.5 Each of the Warranties set out in each paragraph of schedule 1 is separate and independent and unless otherwise expressly provided shall not be limited by reference to any other Warranty or anything in this Agreement.

7.6 EXL Holdings (US) undertakes (except only as may be necessary to give effect to this Agreement or except with the written consent of the Client) that it will not and will procure that the SPV will not do, allow or procure any act or omission before Completion which would constitute a material breach of or would be inconsistent in any material respect with any of the Warranties if given at any time prior to Completion. In addition, EXL Holdings (US) will and will procure that the SPV will provide all reasonable co-operation to the Client to ensure the efficient continuation of operation and management of the SPV and, if necessary, to prepare for the introduction of new operating and management procedures in readiness for Completion.

7.7 If in respect of or in connection with any breach of any of the Warranties any sum payable to the Client by EXL Holdings (US) by way of compensation is subject to Taxation, then such further amount shall be paid to the Client by EXL Holdings (US) so as to secure that the net amount received by the Client is equal to the amount of compensation due to it in respect of such breach.

8 LIMITATIONS ON LIABILITY OF EXL HOLDINGS (US)

8.1 EXL Holdings (US) shall not be liable in respect of a claim for breach of the Warranties:-

8.1.1 unless and until the amount that would otherwise be recoverable from it (but for this clause 8.1) in respect of that claim, when aggregated with any other amount or amounts recoverable in respect of other claims against it, exceeds £100,000; and

8.1.2 unless the amount of such claim exceeds £10,000.

8.2 The total aggregate liability of EXL Holdings (US) in respect of all claims for breach of the Warranties is limited to the lesser of:-

(a) £5,000,000 (five million pounds sterling); or

(b) an amount equal to the aggregate of all amounts paid by Client to EXL Holdings (US) by way of Profit Levels as defined in the Service Payments section of Schedule 3 of the Insurance Services Framework Agreement (but not otherwise) pursuant to the Insurance Services Framework Agreement in the period of three years preceding Completion.

8.3 EXL Holdings (US) shall not be liable for a claim for breach of the Warranties unless the Client has given EXL Holdings (US) notice of the claim, stating in reasonable detail the nature of the claim, and if practicable, the amount claimed:

8.3.1 in respect of a claim for breach of a Warranty relating to Taxation on or before the date which is seven years and one month from the Last Accounting Date; or

8.3.2 in respect of any other claim, on or before the date two months after signature of the Auditors' report on the accounts of the SPV for the financial year during which Completion takes place.

8.4 EXL Holdings (US) shall not have any liability under the Warranties in paragraph 2 of schedule 1 in respect of any Tax levied by a Tax Authority which arises after Completion and which the Client is reasonably satisfied has not arisen because of a failure by EXL Holdings (US) or the SPV to manage its affairs in the manner of a normally competent business person mindful of the need to mitigate its Tax liabilities both before and after Completion.

8.5 EXL Holdings (US) shall not have any liability under the Warranties in respect of any employee litigation which arises after Completion and which the Client is reasonably satisfied has not arisen because of a failure by EXL Holdings (US) or the SPV to manage its affairs in the manner of a normally competent business person mindful of the need to mitigate the risks of such litigation both before and after Completion.

8.6 EXL Holdings (US) shall not have any liability under the Warranties to the extent that any claim for breach thereunder arises in respect of a matter which was previously drawn to the Client's attention by EXL Holdings (US) and the Client has disregarded any advice given by EXL Holdings (US) in respect thereof, by either refusing to sanction an item of reasonable expenditure (including, but not limited to, the carrying on of additional services pursuant to the Insurance Services Framework Agreement) for which Client would be liable to reimburse EXL Holdings (US)) or else giving instructions to EXL Holdings (US) or the SPV which are contrary to that advice and, where, had that expenditure been incurred or that advice been followed (as the case may be), either:

8.6.1 the claim for breach of warranty would not have arisen; or

8.6.2 the amount of any loss sustained by the Client as a result of any such breach would have been reduced (in which case EXL Holdings (US) shall only be liable to the Client in respect of such reduced amount).

8.7 EXL Holdings (US) shall not have any liability under the Warranties to the extent that any claim for breach thereunder arises solely by reason of a change in legislation applicable to the SPV and which the Client is reasonably satisfied has not arisen because of a failure by EXL Holdings (US) or the SPV to manage its affairs in the manner of a normally competent business person mindful of the need to mitigate the risks of any such legislative change.

8.8 EXL Holdings (US) shall not have any liability under the Warranties in relation to any claim to the extent that it arises from any matter of which the Client or its directors, officers, employees, agents or advisers had actual knowledge.

8.9 EXL Holdings (US) shall not have any liability under the Warranties in relation to any claim to the extent that such claim would not have arisen but for:-

8.9.1 any act, omission, transaction or arrangement made by or on behalf of, or with the knowledge or consent of, the Client or any of its Associated Companies before, on or after Completion and whether pursuant to this Agreement, the Virtual Shareholders' Agreement or otherwise;

8.9.2 any admission of liability made in breach of the provisions of this Agreement; or

8.9.3 any reorganisation or change in ownership of the Client or any of its Associated Companies or any change by any such company in the accounting basis on which its assets are valued or the accounting basis, method, policy or practice on which its accounts are prepared, after Completion.

8.10 EXL Holdings (US) shall not have any liability under the Warranties in relation to any claim to the extent that full allowance, provision or reserve in respect thereof shall have been made in, or otherwise taken account of or reflected in (whether in the calculation of creditors or debtors or otherwise), the Accounts.

8.11 EXL Holdings (US) shall only have liability under the Warranties in relation to any claim if and to the extent that it is admitted by EXL Holdings (US) or is proven in a court of competent jurisdiction.

8.12 The Client shall not be entitled to claim under the Warranties for any indirect or consequential loss or loss of profit.

8.13 The Client shall not be entitled to recover damages or otherwise obtain reimbursement or restitution more than once in respect of the same loss.

8.14 Clauses 8.1 to 8.13 shall not apply where the relevant amounts being claimed arise as a result of the fraud, dishonesty or wilful default of EXL Holdings (US).

9 ANCILLARY PROVISIONS

9.1 **Claims by officers**

EXL Holdings (US) agrees with the Client (as trustee for the SPV) that it will indemnify the SPV in respect of:

9.1.1 any liability of the SPV (as the case may be) to pay any amount by way of redundancy payment or compensation for wrongful or unfair dismissal to any of the directors or the secretary of the SPV who retires on Completion and who, despite the terms of his letter of resignation, makes a claim for redundancy payment or compensation; and

9.1.2 all costs, charges and expenses whatsoever incurred by the SPV in resisting or compromising any such claim for redundancy payment or compensation.

9.2 **Time of essence**

Time is of the essence of this Agreement in respect of any date or period mentioned in this Agreement and any date or period substituted by written agreement between the Parties or otherwise.

9.3 **Umbrella Agreement**

To the extent relevant, the provisions of clause 9 of the Umbrella Agreement shall apply to this Agreement as they apply to the Umbrella Agreement.

This Agreement has been signed on the date first stated on page 1.

Signed for and on behalf of

ExIService Holdings, Inc by

________________________ name

Signed for and on behalf of

Norwich Union Customer Services (Singapore) Pte Ltd by

________________________ name

SCHEDULE 1

Warranties

1 ACCOUNTS

The Accounts have been prepared in accordance with all applicable statutes and regulations and on a basis consistent with previous accounts of the SPV and in accordance with the accounting principles, standards and practices generally accepted in the US and show a true and fair view of the state of affairs of the SPV as at the Last Accounting Date and of its results for the financial period then ended.

2 TAX

2.1 The Accounts contain full provision or reserve for all Taxation including deferred Taxation liable to be assessed on the SPV for the accounting period ended on the Last Accounting Date or for any prior or subsequent period (on the basis of the rates of tax and taxation statutes in force at the Last Accounting Date) in respect of any transaction, event or omission occurring or any profit earned by the SPV on or prior to the Last Accounting Date or for which the SPV is accountable up to such date and all contingent liabilities for Taxation have been provided for or disclosed in the Accounts.

2.2 Since the Last Accounting Date no further liability or contingent liability for Taxation has arisen otherwise than as the result of trading activities in the ordinary course of the SPV's business.

2.3 All returns of the SPV made for Taxation purposes were when made and remain correct and on a proper basis and all other information supplied to the relevant Tax Authority for such purpose was when supplied and remains correct and on a proper basis and such returns include all returns and information which the SPV ought to have made or given and are not subject to any dispute with the relevant Tax Authority at the date of this Agreement and there is no fact or matter which might be the occasion of any such dispute or any liability for Taxation (present or future) not provided for in the Accounts.

2.4 The SPV has paid all Taxation for which it is liable to account to the relevant Tax Authority on the due date for payment of it and is under no liability to pay any penalty or interest in connection with it.

2.5 The SPV has deducted and accounted to the relevant Tax Authority for all Taxation required to be deducted from any payments made by the SPV.

2.6 All documents which affect the right, title or interest of the SPV in or to any of its property, undertaking or assets or to which the SPV is a party have been duly and properly stamped.

3 THE PROPERTY AND ENVIRONMENT

3.1 The SPV has a good and marketable title to all of the Properties and, where it is the owner of such properties, is absolutely entitled to the whole of the proceeds of sale of the Properties. Where the SPV occupies any of the properties pursuant to a lease then, so far as EXL Holdings (US) is aware (having made all reasonable enquiries of the SPV) nothing has occurred which would permit the lessor to terminate such lease ahead of the expiry of the contractual term of that lease and neither EXL Holdings (US) nor the SPV has received notice from a lessor indicating its intention to terminate such a lease.

3.2 The title to each of the Properties is free from any material third party rights, mortgages, easements, quasi easements or restrictions on use and the Properties are not subject to any outgoings other than general rates, water charges and insurance premiums and (where leasehold) rent and service charges.

3.3 The SPV is entitled to full vacant possession of the Properties and is in actual occupation of the Properties on an exclusive basis.

3.4 All material agreements, obligations, restrictions, covenants, conditions, statutes, bye-laws and regulations affecting any of the Properties or their use have been observed and performed and all material outgoings of whatsoever nature in respect of the Properties have been paid to date.

3.5 So far as EXL Holdings (US) is aware there are no works being carried on or outstanding in respect of the Properties.

3.6 The existing use of each of the Properties is the lawful permitted use and is not temporary or personal or subject to any restrictions or conditions. The Properties comply (as to buildings and use) with all applicable statutory and bye-law requirements relating to their continued use, including fire precautions, public health and health and safety at work.

3.7 So far as EXL Holdings (US) is aware, there are no outstanding or anticipated notices, complaints, requirements or recommendations of any landlord or any authority affecting any of the Properties or the use of any of the Properties.

3.8 So far as EXL Holdings (US) is aware, there are no restrictions on any of the Properties being mortgaged or charged and, where any of the Properties is leasehold, the SPV can assign or underlet the whole of such Property with the lessor's consent, such consent not to be unreasonably withheld.

3.9 So far as EXL Holdings (US) is aware, there are no monetary claims or liabilities, contingent or otherwise, in respect of any of the Properties or any other property (whether as tenant or surety) including compensation for disturbance or improvements in respect of any past or present tenancy and there are no obligations to reinstate any of the leasehold Properties by removal or dismantling of any alteration.

3.10 So far as EXL Holdings (US) is aware, there are no circumstances which would entitle a lessor or any other person to exercise any right of re-entry or taking possession of any of the Properties or which would otherwise restrict or terminate the continued possession and occupation of any part of any of the Properties.

3.11 So far as EXL Holdings (US) is aware, none of the Properties is, or has been, subject to contamination with noxious, deleterious or dangerous substances or is liable to such contamination from adjoining or neighbouring land or water or has been subject to the deposit of waste by any other person.

4 ASSETS

Save for any assets which are the subject of any leasing, hire purchase or rental agreements, all the undertaking, property and assets used by the SPV in connection with its business are in the sole legal and beneficial ownership of the SPV free from any Encumbrance and no claim has been made by any person to be entitled to them. All such property and assets are in good and substantial repair.

5 MATERIAL CONTRACTS AND LIABILITIES

5.1 The SPV has no material liabilities (actual or contingent) other than the liabilities disclosed in the Accounts or which have arisen in the ordinary course of business since the Last Accounting Date.

5.2 No power of attorney has been granted by the SPV which may be effective or in force at any time after the date of this Agreement.

5.3 The SPV is not in material default under, and has not committed any material breach of any of the terms of, any agreement, arrangement or obligation to which the SPV is a party, and no threat or claim of any such default or breach has been made and is outstanding against the SPV.

5.4 So far as EXL Holdings (US) is aware, having made all reasonable enquiries, there is no ground for termination, avoidance or repudiation of any agreement, arrangement or obligation to which the SPV is a party and no person with whom the SPV has entered into an agreement, arrangement or obligation has given notice of its intention to terminate or has sought to repudiate or disclaim any such agreement nor is any such party in default under any such agreement.

6 CONDUCT OF BUSINESS, COMPLIANCE WITH LEGISLATION *ETC.*

6.1 The SPV and all of its directors, officers, agents and employees (during the course of their duties in relation to the SPV) have complied in all material respects with all applicable legislation (including statutory instruments, bye-laws, local and central government orders, notices and decisions) to the extent that there has not been, and are not, any material adverse effects upon the assets or business of the SPV or upon its Client's or Client UK's relationship with any regulatory bodies, as a consequence of breaching the same.

6.2 There are not pending or in existence any investigations or enquiries by or on behalf of any governmental or other body in respect of the affairs of the SPV.

6.3 All statutory, municipal and other licences, consents, permits and authorisations necessary for the effective carrying on of the business of the SPV as now carried on in the places and in the manner in which such business is now carried on (and without which there would be a material adverse effect on the business of the SPV or on its Client's or Client UK's relationship with any regulatory bodies) have been obtained and are valid and subsisting and all conditions applicable to any such licence, consent, permit or authorisation have been complied with in all material respects and none of such licences, consents, permits or authorisations has been breached so far as EXL Holdings (US) is aware (having made all reasonable enquiries) or is likely to be suspended, cancelled, refused renewal, revoked, modified or rendered (whether on renewal or otherwise) subject to conditions not applicable at the date of this Agreement.

6.4 All trade names, trade marks, patents, inventions and designs and all technical processes and confidential know-how (and all copyright in them) used by the SPV in connection with its business either belong exclusively to EXL Holdings (US), the SPV or the Client or are used under subsisting licence arrangements and (where the same belong to the SPV and are registrable) are registered in the SPV's name as sole proprietor and no undisclosed licence has been granted to any other person in relation to any such matter.

6.5 So far as EXL Holdings (US) is aware (having made all reasonable enquiries) no part of the business as currently or previously carried on by the SPV infringed, infringes or has been alleged to infringe any intellectual property rights of any other person and no person is infringing or threatening to infringe any intellectual property rights of the SPV.

6.6 The SPV has not disclosed and is not obliged to disclose, any confidential information, know-how and trade secrets used by the SPV.

6.7 So far as EXL Holdings (US) is aware (having made all reasonable enquiries) the SPV is entitled to use all computer systems and software in its possession with no material restrictions as to use.

7 EMPLOYMENT

7.1 The SPV has not lent or agreed to lend or advance any amounts to any of its employees or officers (other than remuneration for the current pay period, accrued holiday pay for the current holiday year or reimbursement of expenses or loans to employees under employee salary policies).

7.2 No employee of the SPV has given or received notice of termination in the three months prior to the date of this Agreement.

7.3 All employees of the SPV have been paid all remuneration to which they are entitled as at the date of this Agreement including salary, bonus, commission, fees and any similar payments.

7.4 There are no ongoing industrial disputes affecting the employees of the SPV and there have been none threatened or pending in the six months prior to the date of this Agreement.

8 PENSIONS

8.1 The SPV does not provide or contribute to the provision of any pension or like benefits (excluding state benefits) for any person nor is it under any obligation to do so.

8.2 The SPV does not pay any ex-gratia benefits to any person nor has it promised to do so.

8.3 The SPV does not pay any contributions under any personal pension arrangements made by any person nor is it under any obligation to do so.

8.4 The SPV is not and has never been the principal or a participating employer in any occupational pension scheme.

9 EVENTS SINCE THE LAST ACCOUNTING DATE

Since the Last Accounting Date:

9.1 the SPV has carried on its business in the ordinary and usual course and maintained its business as a going concern;

9.2 all amounts received by the SPV have been deposited with the SPV’s bankers and appear in the appropriate books of account;

9.3 the SPV has not entered into any transaction or assumed or incurred any liabilities (including contingent liabilities) or made any payment not provided for in the Accounts otherwise than in the ordinary course of carrying on its business or as approved under the Virtual Shareholders’ Agreement; and

9.4 no resolutions have been passed by the SPV and except as approved under the Virtual Shareholders’ Agreement, nothing has been done in the conduct or management of the affairs of the SPV which, so far as EXL Holdings (US) is aware, would be likely to materially prejudice the interests of the Client as prospective buyer of the Shares.

10 LOANS

Save for loans to employees under employee salary policies there are no loans made by or to the SPV outstanding except as shown in the Accounts and all amounts outstanding and appearing in the Accounts as loan accounts or as due to any director or shareholder or any persons connected with them wholly represent money or moneys worth paid or transferred to the SPV or remuneration accrued due and payable for services rendered and (except for such remuneration) no part of them has been provided directly or indirectly out of the assets of the SPV.

11 LITIGATION ETC.

11.1 The SPV is not involved either as a claimant or defendant or otherwise in any civil, criminal or arbitration proceedings or in any proceedings before any tribunal other than as plaintiff for the collection of debts arising in the ordinary course of business and so far as EXL Holdings (US) is aware, no such proceedings are threatened or pending.

11.2 There is no unsatisfied judgment, order or decree of any court or any governmental agency outstanding against the SPV.

11.3 No order has been made, petition presented, resolution passed or meeting convened for the winding-up of the SPV.

11.4 No petition has been presented for an administration order to be made in relation to the SPV, nor has any such order been made.

11.5 No receiver (including an administrative receiver) has been appointed of the whole or any part of any of the property, assets and/or undertaking of the SPV.

11.6 No composition in satisfaction of the debts of the SPV, or scheme of arrangement of its affairs, or compromise or arrangement between it and its creditors and/or members or any class of its creditors and/or members, has been proposed, sanctioned or approved.

12 INSURANCES

The insurances effected by the SPV or in which the SPV has an interest cover all insurable assets of the SPV (to their full replacement cost) as well as all such liabilities against such risks and in such amounts as are normally covered by companies carrying on similar businesses or owning properties of a similar nature, and all such insurances are valid and effective and all premiums have been duly paid to date and so far as EXL Holdings (US) is aware there is no fact or matter which could lead to any policy being avoided or repudiated or refused renewal on substantially the present terms.

13 GRANTS

So far as EXL Holdings (US) is aware, no act or transaction will have been effected by the SPV prior to Completion (whether before or after the date of this Agreement) in consequence of which the SPV is or may be held liable to refund in whole or in part any investment grant (or other grant, subsidy, financial assistance or allowance received or allowed by virtue of any statute), or whereby any such grant, subsidy, assistance or allowance for which application has been made by it may not be paid or allowed or may be reduced.

14 OWNERSHIP

The Warranties given in clause 2.2 are true and correct.

SCHEDULE 2

Completion requirements

1 EXL Holdings (US) shall deliver to the Client:

1.1 share transfer forms in relation to the Shares duly executed by the registered holders of such Shares in favour of the Client (or as it directs), together with the relative share certificates;

1.2 duly signed letters of resignation, in the terms reasonably required by the Client, from such of the present directors (other than the Nominated Director (as that expression is defined in the Virtual Shareholders' Agreement)) and secretary of the SPV as the Client may require;

1.3 the certificate of incorporation (and, if applicable, any certificates of incorporation on change of name), any common seal, any securities seal, statutory books, records and registers (duly made up to the date of Completion), share certificate book and all available copies of the memorandum and articles of association of the SPV;

1.4 certificates in respect of all issued shares in the capital of the SPV and transfers of all shares in the SPV held by any nominee(s) for EXL Holdings (US) in favour of such person(s) as the Client shall direct;

1.5 all title deeds and other deeds and documents (including plans and consents) relating to the Properties;

1.6 unconditional receipts for rent and any additional rent or service charge due in respect of each of the Properties which is leasehold;

1.7 irrevocable powers of attorney, in the terms reasonably required by the Client, executed by each of the holders of the Shares in favour of the Client and its directors to enable the Client (pending registration of the transfers of such shares) to exercise all voting and other rights attaching to such shares and to appoint proxies for this purpose.

2 EXL Holdings (US) shall procure that there shall be held a meeting of the directors of the SPV attended by a quorum of the directors, at which:

2.1 such persons as the Client may nominate shall be appointed additional directors with effect from the end of the meeting (but not so as to exceed any maximum number permitted by its articles of association);

2.2 the resignation mentioned above of the present secretary shall be accepted with immediate effect and such person as the Client may nominate shall be appointed secretary in his place;

2.3 the transfers referred to in paragraphs 1.1 and 1.4 shall be approved for registration;

2.4 such resolutions and actions regarding bankers as the Client may require shall be passed and taken;

2.5 such other business as the Client may reasonably require shall be transacted; and

2.6 the resignations mentioned of the present directors shall be accepted with effect from the end of the meeting;

and EXL Holdings (US) shall deliver to the Client a certified copy of the minutes of such board meeting. Client shall procure the attendance of the Nominated Director (as such expression is defined in the Virtual Shareholders Agreement) at such meeting.

3 EXL Holdings (US) and the SPV shall procure the termination, with effect from Completion and on terms reasonably satisfactory to the Client, of the Insurance Services Framework Agreements (Intra-Group) (as that expression is defined in the Umbrella Agreement).

SCHEDULE 3

Form of disclosure letter

To: ***[Name and address of Client]***

• 200•

Dear Sirs,

[Re: SPV]

Reference is made to the Share Sale and Purchase Agreement (the **"Agreement")** dated as of [ ] by and among EXL Service Holdings, Inc. **("EXL Holdings (US))",** a Delaware Corporation (the **"Vendor")** and Norwich Union Customer Services (Singapore) Pte Limited, a Singapore Corporation (the **"Purchaser"),** providing for the purchase and sale of all of the outstanding stock of SPV, an Indian corporation (the **"Company").** Capitalised terms used and not otherwise defined herein shall have the respective meanings ascribed to such terms in the Agreement.

This is the Disclosure Letter referred to in Clause 7.3 of the Agreement. The Disclosure Letter is comprised of (i) this letter, (ii) the Schedule[s] to this letter, and (iii) all information contained in and all matters referred to in the documents listed in Schedule 1 hereto (the **"Disclosure Documents")** (copies of which Disclosure Documents are contained in the bundles attached to this letter).

In the event of any inconsistency between the contents of any Disclosure Document and any reference to it or summary of it in the Disclosure Letter, the provisions of the Disclosure Document shall be taken as being correct (unless otherwise expressly stated herein) and the Vendor shall not be under any liability to the Purchaser in respect of such inconsistency.

Words and expressions defined in the Agreement shall have the same meanings in the Disclosure Letter, unless otherwise defined herein or unless the context otherwise requires.

The purpose of the Disclosure Letter is to limit the scope of the Warranties and the Purchaser shall not be entitled to claim that any fact, matter or circumstance causes any of the Warranties to be breached if it is fairly disclosed in or by virtue of this Disclosure Letter (a **"Disclosure").** The Warranties are made and given subject to the Disclosures.

For convenience, a Disclosure may be made in the Disclosure Letter by reference to a particular Warranty. However, each Disclosure shall apply to all of the Warranties, whether it is made generally or otherwise, and a Disclosure shall not be limited in any way to a specific Warranty. The Purchaser shall not be entitled to claim that any fact, matter or circumstance has not been disclosed by reason of any Disclosure not being specifically related to any particular Warranty provided that the impact of such Disclosure is reasonably apparent in relation to such particular Warranty.

The Purchaser agrees that there are no documents referred to in the Disclosure Letter as having been disclosed which the Purchaser would like to see and which have not been supplied or made available to the Purchaser, and that there are no matters referred to in the Disclosure Letter in respect of which the Purchaser wishes to receive further information.

The Disclosure Letter does not constitute any representation, warranty, assurance or undertaking by the Vendor not expressly set out in the Agreement and shall not have the effect of, or be construed as, adding to or extending the scope of any of the Warranties.

Where any estimates, forecasts or statements of opinion as to the financial or trading performance or prospects of the Company or the amount of any liability, cost or expense are given in the Disclosure Letter, the Disclosure shall not be rendered unfair if the same should turn out to be inaccurate, provided such estimates, forecasts or statements of opinion are given in good faith.

A. GENERAL MATTERS

The following matters are disclosed generally:-

(a) the provisions of and all matters contained and disclosed in or contemplated by the Agreement (including the schedules and any annexures thereto and documents referred to therein as being in agreed terms);

(b) all matters contained or referred to in the Accounts of the Company (including the notes and directors' report, if any, to them);

(c) all information provided in writing or other non-transient form to ***[accountants]*** in response to specific requests made by those accountants in connection with the preparation of their long form report dated • 200• to the Purchaser on the Company;

(d) [all information provided in writing or other non-transient form to the Purchaser's Solicitors in response to specific requests made by those solicitors in connection with the preparation of their legal due diligence report dated • 200• to the Purchaser on the Company;]

(e) the contents of any documents annexed to this Disclosure Letter;

(f) all information provided in writing or other non-transient form relating to the Company its businesses and its assets provided by or on behalf of the Vendor or the Company to the Purchaser, its directors, officers, employees, agents or advisers pursuant to the provisions of the Umbrella Agreement, the Insurance Services Framework Agreement or the Virtual Shareholders Agreement or provided in response to specific requests by any of its directors, officers, employees, agents or advisers as part of any investigations made by any such persons of the Company and its businesses and assets in contemplation of the Purchaser acquiring the Company;

(g) all communications in writing or other non-transient form made by the Vendor's Solicitors to the Purchaser's Solicitors which are in any way connected with the Company, the Agreement or the transactions contemplated thereby, including any enclosures or attachments to such communications;

(h) all matters disclosed in the statutory books (including all registers and minute books) of the Company which have been made available to the Purchaser and/or the Purchaser's Solicitors for inspection prior to the date hereof;

(i) all matters contained or referred to in the current memorandum and articles of association of the Company;

(j) all information available to the public on • 200• from [insert details of relevant company register];

B. SPECIFIC MATTERS

Without limiting the preceding paragraphs of the Disclosure Letter, there are further disclosed the following specific matters. The headings and paragraph numbers below correspond to those in Schedule 1 to the Agreement and are for convenience only as the matters contained or referred to therein also constitute Disclosures in respect of every other Warranty. References below to a document number are to the number of a particular Disclosure Document in the attached bundles.

[Insert specific disclosures]

Please sign and return to us the enclosed copy of this letter in acknowledgement of receipt of the Disclosure Letter and acceptance of its terms

Duly authorised for and on behalf of:
[EXL Holdings (US)]

Date: ______________________

We hereby acknowledge receipt of the Disclosure Letter and accept the terms thereof.

Duly authorised for and on behalf of:
[Client]

Date: ______________________

Exhibit 21.1

Subsidiaries of the Registrant:

1. ExlService.com, Inc., a Delaware corporation
2. ExlService (UK) Limited, an entity formed in the United Kingdom
3. ExlService.com (India) Private Limited, an Indian corporation (subsidiary of ExlService.com, Inc.)
4. Noida Customer Operations Private Limited, an Indian corporation (subsidiary of ExlService.com India Private Limited)
5. Exl Support Service Private Limited, an Indian corporation (subsidiary of ExlService.com India Private Limited)
6. Inductis, Inc., a Delaware corporation
7. Inductis LLC, a Delaware limited liability corporation (subsidiary of Inductis, Inc.)
8. Inductis India Private Limited, an Indian corporation (subsidiary of Inductis, Inc.)
9. Inductis (Singapore) PTE Ltd., a Singapore corporation (subsidiary of Inductis Inc.)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the reference to our firm under the caption “Experts” and to the use of our report dated February 15, 2005, in Amendment No. 4 to the Registration Statement (Form S-1 No. 333-121001) and related Prospectus of ExlService Holdings, Inc. for the registration of its common stock.

/s/ Ernst & Young LLP

New York, New York
September 15, 2006

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO: Inductis, Inc.

As independent certified public accountants, we hereby consent to the inclusion in the Form S-1 Registration Statement of our report dated May 22, 2006, except for note 23(b) which is dated June 18, 2006, relating to the consolidated financial statements of Inductis, Inc. and to the reference to our Firm under the caption “Experts” appearing in the Prospectus.

/s/ RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP

Russell Bedford Stefanou Mirchandani LLP

New York, New York
September 15, 2006

ExlService Holdings, Inc. has claimed confidential treatment with regard to portions of this letter pursuant to 17 C.F.R. §200.83. This filing omits confidential information (denoted by asterisks) included in an unredacted version submitted to the Division of Corporation Finance.

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, New York 10019-6064

September 15, 2006

Via EDGAR

Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

ExlService Holdings, Inc. – Amendment No. 4
Registration Statement on Form S-1 (File No. 333-121001)

Ladies and Gentlemen:

On behalf of ExlService Holdings, Inc., a Delaware corporation (the *"Company"*), we submit in electronic form for filing the accompanying Amendment No. 4 (*"Amendment No. 4"*) to the Registration Statement on Form S-1 (the *"Registration Statement")* of the Company, marked to indicate changes from the Registration Statement as filed with the Securities and Exchange Commission (the *"Commission"*) on July 27, 2006, together with Exhibits.

Amendment No. 4 reflects the responses of the Company to comments received from the Staff of the Commission (the *"Staff"*) in a letter from Owen Pinkerton, dated August 24, 2006 (the *"Comment Letter"*). The discussion below is presented in the order of the numbered comments in the Comment Letter. Certain capitalized terms set forth in this letter are used as defined in the Registration Statement. For your convenience, references in the responses to page numbers are to the marked version of Amendment No. 4 and to the prospectus included therein (the *"Prospectus"*).

The Company's responses to the Staff's comments are as follows:

General

1. *We have reviewed the supplemental material you provided to us in connection with your characterization of the company as a "leader" in the business process outsourcing field. In particular we note from the "Major Players in Outsourcing" article that a number of your direct competitors have substantially higher revenues than you do, many of whom have revenues in excess of $1 billion. In addition, the NASSCOM study provided to us appears to be limited to NASSCOM members that have operations in India. Finally, it is not clear what criteria were used in determining the "best managed global outsourcing vendors" in the "Black Book of Outsourcing." In light of this, please limit your leadership claim to a smaller subset in your industry or provide us with additional information that supports your leadership claim in the BPO industry as a whole.*

Response to Comment 1

The Company has revised the Prospectus to replace references to the Company as a "leading" provider of offshore business process outsourcing services with statements that the Company is a "recognized" provider of offshore business process outsourcing services. The Company's statements in the Prospectus are limited to its position in the offshore business process outsourcing market as opposed to the global BPO industry. The Company previously supplementally provided the Staff with various surveys, articles and other materials from a variety of independent industry and other media sources covering the BPO sector that demonstrate the general industry recognition of the Company in the offshore BPO industry. As discussed with Mr. Owen Pinkerton and Ms. Charito A. Mittelman on August 31, 2006, independent studies or reports covering the BPO industry or its subsegments do not generally identify a common variable upon which leadership determinations can be made. The various variables used in the materials provided to the Staff include not only revenues, but also customer and vendor surveys, professional association surveys, customer enquiries and other factors such as the size, skills and training of the Company's workforce, the quality of customer service, management's track record and the Company's technical and business certifications. The Company believes that the references to the Company in the materials provided to the Staff demonstrate that the Company is a recognized provider of offshore BPO services in the industry based on the various metrics and other considerations addressed in the materials.

In further support of its statements, and as discussed with Mr. Pinkerton and Ms. Mittelman, the Company has supplementally provided the Staff with the following additional materials:

1. Select pages from the Registration Statement on Form F-1 (the "F-1") of WNS (Holdings) Limited, a Channel Islands company ("WNS"), that completed its initial public offering and listed its securities on the New York Stock Exchange in July

2006. In the F-1, WNS states that it is a "leading provider of offshore business process outsourcing services." It also states that it "competes primarily with focused business process outsourcing services companies based in offshore locations like India, such as Genpact and ExlService Holdings, Inc."

2. Analyst Research Report, dated August 29, 2006, published by Lehman Brothers, an investment bank that is not part of the Company's underwriting group, initiating coverage for WNS that confirms that the Company is one of the two most closely comparable companies to WNS.

By identifying the Company as the direct and one of the primary competitors of a leading provider in the offshore BPO service industry, the Company believes that this supplemental material is further evidence of the general industry recognition of the Company in this sector. The Company therefore believes that its revised statement in the Prospectus as to its industry recognition in the offshore BPO industry is appropriate.

2. *Please provide updating financial information, including MD&A, in your next amendment in accordance with Rule 3-12 of Regulation S-X.*

Response to Comment 2

The Company has revised the Prospectus as requested.

Prospectus Summary

Our Business—Page 1

3. *We note your disclosure regarding the compound annual growth rate of your revenues between 2003 and 2005. Please balance your disclosure by clarifying that much of the growth for the period 2003 to 2004 resulted from your providing services for certain clients or the entire year in 2004 rather than providing services for only part of the year for 2003. In addition, we note that the growth rate between 2004 and 2005 was significantly less than the CAGR for the three-year period and the revenue increase from 2003 to 2004. Please break out these numbers to better illustrate your revenue position during these years.*

Response to Comment 3

As the Company has been regularly adding clients each year, its revenue growth each year is a combination of adding new clients, ongoing growth in existing client relationships as well as the inclusion of full-year revenues from clients added in the preceding year. The Company has revised the Prospectus accordingly as requested. See page 1 of the Prospectus.

4. *Please provide the reports referenced in the "Market Opportunity" section of your summary, marking the relevant portions that support your statements for our review. Please also clarify in your disclosure the source of the NASSCOM-McKinsey data reports. For example, we note from the supplemental material you provided on April 15, 2005 that NASSCOM data is obtained from member companies on a quarterly basis and, as such, the data may not represent a complete picture of the business process outsourcing market opportunities in general.*

Response to Comment 4

The Company has supplementally provided the Staff, under a separate cover letter, with the NASSCOM-McKinsey report referenced in the "Market Opportunity" section of the Prospectus Summary and has marked the relevant portions of the NASSCOM-McKinsey report that support the Company's statements. The Company respectfully requests that the material so provided separately to the Staff be treated as supplemental information under Rule 418 under the Securities Act and be returned by the Staff upon completion of its review. The Company has also revised the Prospectus as requested to clarify the source of the NASSCOM-McKinsey data reports. As now indicated in the Prospectus, the NASSCOM-McKinsey report did not rely on data obtained from NASSCOM members but was prepared based on studies and analyses of surveys of BPO service providers and customers conducted by McKinsey & Company. See page 2 of the Prospectus.

Competitive Strengths, page 2

5. *Please quantify the aggregate equity stake held by insiders of the company, both on a pre-and post-offering basis.*

Response to Comment 5

The Company has revised the Prospectus as requested. See page 3 of the Prospectus.

Information about the company, page 4

6. *Please expand to briefly describe further details of the Inductis, Inc. acquisition, including the total purchase price paid and related earn out and contingent payment obligations, including the total maximum number of shares that may be issued as part of the earn out and contingency payment obligations in future periods. Please also disclose how the stock issued in connection with these obligations will be valued.*

Response to Comment 6

The Company has revised the Prospectus as requested. See page 5 of the Prospectus.

Summary Risk Factors, page 6

7. *Please revise the summary risk factors to better illustrate the potential risks to investors. For example,*

- *In the sixth bullet point, please expand to briefly describe the nature of the termination provisions and why they could adversely affect your operations;*
- *In the seventh bullet point, please identify your largest client and quantify the portion of your revenues represented; and,*
- *In the eighth bullet point, please quantify the ownership interests of Oak Hill and FTVentures on both a pre- and post-offering basis, and indicate that, on a pre-offering basis, these entities have the ability to control substantially all matters brought before the Board of Directors, not merely exercise significant influence.*

Response to Comment 7

The Company has revised the Prospectus as requested. See page 7 of the Prospectus.

Risk Factors

8. *We note that both Norwich Union and American Express include non-competition clauses in the agreements they have with you that hinder your ability to offer outsourcing services to competitors of Norwich Union and American Express. Please consider adding a new risk factor that addresses the scope of this prohibition and assess how it affects your ability to expand within the BFSI sector of your industry.*

Response to Comment 8

The Company respectfully requests that the following information provided in response to the Staff's Comment 8 be treated in its entirety as nonpublic and confidential matters under the Freedom of Information Act, be maintained in confidence, not made part of any public writing and not be disclosed to any person:

The non-competition restrictions in the Norwich Union agreements only restrict the Company from offering services to a scheduled list of ten insurance companies in the United Kingdom. Several of the listed companies already have captive outsourcing centers or existing outsourcing service providers and would not likely be clients of the Company. In addition, Norwich Union may waive these restrictions and its consent to a waiver request cannot be unreasonably withheld or delayed. [****]

[*****]

Because the non-competition clauses in the Norwich Union and American Express contracts are limited in duration and scope, the Company does not believe that these restrictions hinder generally its ability to provide additional outsourcing services or otherwise expand its business. Therefore, the Company believes that an additional risk factor addressing the scope of the non-competition clauses in the Norwich Union and American Express contracts is unnecessary. The Company has, however, revised the Prospectus to better describe the limited scope of these restrictions. See page 12 of the Prospectus.

Our research and analytics services and our advisory services . . . page 13

9. *Please clarify what you mean when you refer to some of your advisory services as "discrete projects," and describe further how that classification poses a risk to your business.*

Response to Comment 9

The Company has revised the Prospectus as requested. See page 14 of the Prospectus.

Our industry may not develop in ways that we currently.... page 16

10. *In order to add depth to your risk factor, please provide additional information regarding your market presence in the UK, including the portion of your revenues derived from contracts originating in the UK. In addition, please clarify whether the legislation referred to includes a "grandfather clause" for existing agreements or, if not, why you believe that this legislation will not affect existing agreements you have with your customers.*

Response to Comment 10

The Company has revised the Prospectus as requested. See page 17 of the Prospectus.

Unaudited Pro Forma Consolidated Financial Information, page 32

11. *Please revise your opening paragraph to include a more detailed description of the transaction and the entities involved in accordance with Item 11-02(b)(2) of Regulation S-X.*

Response to Comment 11

The Company has revised the Prospectus as requested. See page 34 of the Prospectus.

12. *We note you have included a summarized pro forma balance sheet. Please revise your pro forma balance sheet disclosure to include all major captions that are in excess of ten percent of total assets. Please refer to Item 11-02(b)(3) of Regulation S-X.*

Response to Comment 12

The Company has revised the Prospectus as requested. See page 37 of the Prospectus.

13. *Related to your calculation of the purchase price, please tell us how you considered the issuance of restricted shares in your determination of the purchase price. In addition, please explain the basis for your allocation of the purchase price explaining your considerations determining the value of each intangible asset. Finally, please revise to disclose the useful lives for all acquired intangible assets that are subject to amortization.*

Response to Comment 13

The grant of the restricted shares of Series B common stock to holders of Inductis securities was not part of the purchase price for the business but was made as part of retention incentives to retain Inductis management and therefore the expense associated with the restricted stock is being recognized as ongoing compensation expense. The Company has otherwise revised the Prospectus as requested. See page 38 of the Prospectus.

14. *We note that $0.4 million of the purchase price will be paid in January 2007. Please explain why your pro forma balance sheet does not reflect a liability for that payment. In addition, please revise your disclosures to clearly explain the terms and impact of all contingent consideration.*

Response to Comment 14

The Company has revised the Prospectus as requested. See pages 38 and 39 of the Prospectus.

15. *We note that from your disclosure that the fair value of shares issued in the transactions was $17.40 per share. Please reconcile this with the disclosure on F-63 that the shares were valued at $23.75.*

Response to Comment 15

The Company confirms that the fair value of the shares issued in the Inductis acquisition was $17.40 per share. This fair value was determined based on an independent third party valuation of the shares of the Company, on a standalone basis, done on June 15, 2006, shortly before the closing of the acquisition.

However, as discussed with Jamie Webster on August 31, 2006, in the initial stages of negotiation for the acquisition of Inductis, the Company established a maximum dollar value of the consideration that it was willing to pay to the Inductis shareholders for the Inductis shares. The parties later agreed that a portion of the total consideration to be paid by the Company would be in the form of shares of the Company and, as part of the negotiations and consistent with the exercise price of all options granted since the fall of 2004, agreed to use an agreed-upon value of $23.75 per share as a denominator in order to determine the total number of shares to be issued to the Inductis shareholders at closing as well as through future earnouts based on performance. Such total number of shares was fixed at the closing of the acquisition and is not subject to change.

Following the accounting rules for purchase accounting, the Company has therefore used the value of $17.40 per share for purposes of purchase accounting and has revised the Prospectus as requested. See pages F-64 and F-65 of the Prospectus.

16. *Related to note (c), please advise why you have not recorded an adjustment for income taxes in the three months ended March 31, 2006.*

Response to Comment 16

The Company did record an adjustment and has revised the Prospectus as requested. See page 36 of the Prospectus.

17. *Related to note (f), please advise us how you calculated the adjustment to eliminate $2.7 million in deferred tax assets in the business combination. We note from page F-81 that Inductis only had net deferred tax assets of $0.8 million at March 31, 2006.*

<u>Response to Comment 17</u>

The Company has revised the Prospectus as requested to correct the amount of deferred tax assets. The deferred tax liabilities, which are netted against the deferred tax asset, were also adjusted. See pages 37 and 39 of the Prospectus.

Management Discussion & Analysis, page 37

Expenses, page 39

Depreciation and Amortization, page 40

18. Please revise to include the amortization of intangible assets in this discussion. Based upon your pro forma information, it appears that amortization expense will increase significantly as a result of the Inductis Acquisition.

<u>Response to Comment 18</u>

The Company has revised the Prospectus as requested. See page 44 of the Prospectus.

Acquisition History, page 42

19. In your discussion of the Inductis, Inc. acquisition please disclose here the total purchase price for the acquisition.

<u>Response to Comment 19</u>

The Company has revised the Prospectus as requested. See pages 45 and 46 of the Prospectus.

20. Disclose the debt incurred in the acquisition as mentioned page 52.

<u>Response to Comment 20</u>

The Company has revised the Prospectus as requested. See page 46 of the Prospectus.

Results of Operations, page 46

21. We note the net gain of $1.4 million from an ineffective cash flow hedge for fiscal year 2005. Please tell us which income statement caption includes the gain and revise your discussion of the results of operations to include all material changes within the income statement captions.

Response to Comment 21

The gain is included under the Other Income/(Expenses) caption. The Company has revised the Prospectus as requested. See page 51 of the Prospectus.

Contractual Obligations, page 53

22. Please revise to include your obligations under the employment agreements disclosed on pages 86 through 88.

Response to Comment 22

The Company has revised the Prospectus as requested. See page 56 of the Prospectus.

Business, page 57

23. On the top of page 58, please briefly discuss the significance of certification by Customer Operations Performance Center, Inc. and the receipt of an OHSAS 18001 certification for certain of your facilities.

Response to Comment 23

The Company has revised the Prospectus as requested. See page 61 of the Prospectus.

Exl's Competitive Strengths, page 59

24. We note your statement that a substantial majority of your revenues are derived from the BFSI sector of your business. Please revise to quantify the amount derived from the BFSI sector in the most recent period.

Response to Comment 24

The Company has revised the Prospectus as requested. See pages 2 and 62 of the Prospectus.

Intellectual Property, page 71

25. Please advise us as to why you have not disclosed the lawsuit brought against Jaipur Golden Transport Company Private Limited in the Legal Proceedings section pursuant to Item 103 of Regulation S-K.

Response to Comment 25

The Company has not included the lawsuit brought against Jaipur Golden Transport Company Private Limited in the Legal Proceedings section because the lawsuit is immaterial to the Company. Because the lawsuit is immaterial to the Company, the Company has also removed the disclosure of the lawsuit from the Intellectual Property section on page 74 of the Prospectus.

The Inductis Acquisition, page 77

26. Please expand to explain the terms of the "working capital adjustment" as defined in the Inductis agreement and to disclose the maximum amount that may be paid in additional consideration as a result of the working capital adjustment.

Response to Comment 26

The Company has revised the Prospectus as requested. See pages 81 and 82 of the Prospectus.

Executive Compensation, page 85

27. We refer to the disclosure in footnote 1 to the table. The amounts disclosed in the table under the "Other Annual" column for the respective periods exceed the expenses described in footnote 1. Please revise the footnote so that the source of the total amount of expenses for each period is clear and so that the totals are consistent.

Response to Comment 27

The Company has revised the Prospectus to disclose each individual perquisite amount that is required to be disclosed pursuant to Instruction 1 to Item 402(b)(2)(iii)(C) of Regulation S-K. See page 90 of the Prospectus.

Employment Agreements, page 86

28. Please briefly describe the "specific circumstances" under which Mr. Talwar and/or Mr. Kapoor will be restricted from serving as a member of your board.

Response to Comment 28

The Company is in the process of finalizing the new employment agreements of Mr. Talwar and Mr. Kapoor. Upon finalizing the new employment agreements, the Company will file these agreements and disclose the pertinent provisions of each employment agreement, including the specific circumstances under which either Mr. Talwar and/or Mr. Kapoor will be restricted from serving as a member of the Company's board.

Options/SAR Grants in Last Fiscal Year, page 86

29. Please revise to disclose the fair value of your common stock at the date options were granted to Ms. Murray and Mr. Shashank.

Response to Comment 29

The Company has revised the Prospectus as requested. See page 91 of the Prospectus.

Principal Stockholders, page 98

30. Please tell us why you have included in the table shares that are not exercisable within 60 days (footnote 9, 14, 15 and 16) and therefore are not currently beneficially owned as that term is defined under Rule 13d-3 of the Exchange Act by the respective parties in the table.

Response to Comment 30

The Company has revised the table to include only the shares that are beneficially owned under Rule 13d-3 of the Securities Exchange Act. See pages 103 and 104 of the Prospectus.

Financial Statements

Consolidated Statement of Operations, page F-4

31. We note the inclusion of revenues from related parties on the face of the Statement of Operations. Please disclose in the footnotes a description of the transactions and the related party.

Response to Comment 31

The Company has revised the Prospectus as requested. See pages F-25 and F-42 of the Prospectus.

Consolidated Statement of Cash Flows, page F-7

32. We note the inclusion of changes in restricted cash as a component of net cash provided by (used in) operating activities. Please tell us your basis for including the changes in restricted cash as a component of operating activities rather than a component of investing activities.

Response to Comment 32

The restricted cash is in the nature of certificates of deposit pledged with the revenue authorities to temporarily discharge the Company of any export obligations required to import fixed assets free of any import taxes. These deposits are made as part of normal operating requirements of the revenue authorities in India and not with an objective to derive income for the Company. Therefore, the Company has included restricted cash as a component of net cash provided by (used in) operating activities.

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

Segment Information, page F-10

33. *Please revise your SFAS 131 disclosure regarding segments to include applicable disclosures under paragraphs 25 through 28 of SFAS 131.*

Response to Comment 33

The Company has revised the Prospectus as requested. See pages F-10 and F-32 of the Prospectus.

Note 6 - Redeemable Preferred Stock, page F-16

34. *Please revise your disclosure to clarify what amendments were made to preferred stock agreement in addition to disclosing the current terms of the agreement. Also, please provide us with your basis for reclassifying the preferred stock on the balance sheet as of December 31, 2004.*

Response to Comment 34

The Company has revised the Prospectus as requested. See pages F-3, F-16 and F-36 of the Prospectus. Reclassification of the preferred stock to equity in 2004 had been done to enable comparability to the 2005 presentation. However, in response to the Staff's comment, the Company has reclassified the preferred stock as debt for the 2004 fiscal year as required by SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equities."

Note 11 - Stock Based Compensation, page F-23

35. *It is unclear to us why the fair value of your stock decreased after March 15, 2005 in light of your improving operating results, cash flows, and financial position. Please revise your disclosure to highlight the milestones and other events that resulted in decline in your stock price. In addition, please consider discussion in MD&A*

that highlights the significant factors, assumptions, and methodologies used in determining fair value and the reason management chose not to obtain an independent valuation of its stock in determining fair value.

Response to Comment 35

The Company has revised the Prospectus as requested. See pages 47 and F-23 of the Prospectus.

Note 11 - Income Taxes, page F-38

36. *Please revise your disclosure to clarify the nature of the deferred tax asset recognized.*

Response to Comment 36

The Company has revised the Prospectus as requested. See pages F-21 and F-38 of the Prospectus.

Inductis. Inc. Financial Statements

Note 9 - Other Assets, page F-54

37. *Please revise to clearly disclose the terms of the loans made to iTouchpoint. In doing so, please explain the business purposes for these and tell us why Inductis loaned additional funds in 2006 after the amounts loaned in 2005 were determined to be impaired. Were these loans made to satisfy a funding commitment? If so, please tell us if the Company has assumed this commitment in conjunction with acquisition.*

Response to Comment 37

The Company has revised the Prospectus as requested. See pages F-56 and F-79 of the Prospectus. The Company did not assume this commitment in conjunction with the Inductis Acquisition.

Note 13 - Common Stock, page F-57

38. *Please explain how you have classified the interest charged by the former holding company in the financial statements.*

Response to Comment 38

The former holding company was a limited liability company, and Inductis Inc. paid interest at a rate of 10% on the members' capital balances. Interest expense imputed on members' capital for the years ended December 31, 2005 and 2004 was included in other expenses, net of $255,324 and $201,791, respectively. Details of "other expenses, net" were provided in the Prospectus on page F-60. The Company has revised the Prospectus as requested. See page F-60 of the Prospectus.

Note 16 - Income Taxes, page F-58

39. Please revise your disclosure to clarify what is meant by "non-effective US source corporate income." In addition, please tell us why the change in accounting from cash to accrual basis is being recorded over a four-year period rather than at the time of conversion.

Response to Comment 39

The consolidated pre-tax income for Inductis included the income of a foreign Indian subsidiary which was being removed/ adjusted in computing its U.S. tax expense for the years ended December 31, 2005 and 2004, respectively.

As referenced in footnote 16 on page F-61 of the Prospectus, Inductis Inc. is making this election pursuant to Section 481 of the Internal Revenue Code. The end of the year adjustment for change in accounting methods has been recognized in the current year tax provision(s). Inductis Inc. has booked a deferred tax liability for the change in accounting methods, which will be adjusted each year as the temporary difference reverses. The Company has revised the Prospectus as requested. See pages F-61 and F-83 of the Prospectus.

Exhibits

40. Please file your legal opinion and underwriting agreement or provide us with drafts of these documents with your next amendment so that we have an opportunity to review them.

Response to Comment 40

The Company will supplementally provide the Staff, under a separate cover letter, with the legal opinion of Paul, Weiss, Rifkind, Wharton & Garrison LLP and the underwriting agreement as requested.

* * * *

In addition, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") will be administering the Company's directed share program instead of Citigroup Global Markets Inc., as previously described in the Company's response, filed on January 31, 2005, to the Staff's Comment 65 to the Registration Statement filed on December 3, 2004. The Company has supplementally provided the Staff under a separate cover letter with the materials for the directed share program to be administered by Merrill Lynch.

At the request of the Company the underwriters will reserve shares of the Company's common stock (the "Stock") for sale to certain employees, directors, officers and certain friends and family members of these persons, and certain clients and prospective clients of the Company ("Invitees") through a Reserved Share Program (the "Program") to be conducted by Merrill Lynch. The class of persons for whom shares of Stock will be reserved will be determined by the Company, which will provide Merrill Lynch with the names and addresses of such Invitees along with the maximum number of shares which will be reserved for each such Invitee. Offers and sales of the Stock to Invitees through the Program will be on the same terms as those offered and sold to the general public. Invitees will be invited to participate in the program either by an overnight mailing of materials (Print and Mail Method) or by e-mail (Print Suppression Method).

Print and Mail Method - Based upon information provided by the Company, Merrill Lynch will prepare and mail to each Invitee a package of materials consisting of a short introductory letter from Merrill Lynch, a letter from the Company describing the Program and its mechanics (the "CEO Letter"), an Indication of Interest Form ("IOI"), and a booklet entitled "How to Respond to the Reserved Share Program" (the "Booklet"). The package of materials will also include a copy of the preliminary prospectus and a phone number which the Invitee may call if he or she has any questions concerning the Program.

In addition to explaining the mechanics of the Program, the CEO Letter makes clear that the Invitee is under no obligation to purchase Stock through the Program, that responding to the mailing will involve no obligation of any kind, that the Invitee is not, by reason of his or her inclusion in the Program, assured of obtaining a particular number of shares or any shares, that no offer to buy Stock may be accepted and no part of the purchase price can be received until the Registration Statement has been declared effective, and that any such offer to buy can be withdrawn, in whole or in part, without obligation or commitment, at any time prior to notice of its acceptance given after the effective date of the Registration Statement. The CEO Letter also contains the legend set forth in Rule 134 under the Securities Act of 1933, as amended (the "Securities Act").

The IOI is designed to be signed by the Invitee and returned to Merrill Lynch by facsimile. It is the method by which the Invitee affirms certain statements contained in the Booklet, including that the Invitee has received a copy of the preliminary prospectus, that the number of shares indicated is for the Invitee's personal account, that the Invitee is aware that he or she is not assured of obtaining any or all of the shares requested, and a reiteration of the fact that no offer to buy shares can be accepted, and no part of the purchase price can be received, until effectiveness of the Registration Statement, and that the indication of interest involves no obligation or commitment of any kind. It also provides the mechanism which allows the Invitee to indicate his or her answers (and the answers of his or her joint account holder if the Invitee wishes to purchase in a joint account) to the questions, also contained in the Booklet, which are designed to allow Merrill Lynch to determine whether the Invitee is prohibited from purchasing the Stock under NASD Conduct Rule 2790. Another item in the IOI is designed to provide the vehicle by which the Invitee can indicate the maximum number of shares in which he or she wishes to express an interest, and requests certain personal information necessary for the administration of the Program.

In addition to setting out instructions on how to complete and return the IOI, the Booklet contains a series of Frequently Asked Questions about the Program, along with the answers to those questions.

If the Invitee is interested in reserving Stock through the Program, he or she is directed to return the completed IOI to Merrill Lynch by a specified date. Once the Invitee has returned a completed IOI to Merrill Lynch, and assuming that there is no regulatory impediment to his or her participation in the Program under Conduct Rule 2790, the Invitee’s personal information and the maximum number of shares in which the Invitee has expressed an interest are forwarded to a Merrill Lynch Financial Advisor or Registered Representative who will contact the Invitee to assist in opening a Merrill Lynch account to allow for purchase of the Stock. All purchases by the Invitee through the Program must be made in an account at Merrill Lynch.

Following receipt of all expressions of interest and the establishment of accounts for each Invitee, the Company will determine the final allocation of shares of Stock which will be made available to the Invitees. This allocation is made in the sole discretion of the Company.

Once the Registration Statement has been declared effective and the public offering price of the Stock has been determined, the Merrill Lynch Financial Advisor or Registered Representative to whom the Invitee has been assigned will contact the Invitee, and inform the Invitee of the public offering price and the maximum number of shares which the Company has determined that he or she may purchase. The Invitee is then asked whether he or she wishes to purchase Stock at that price, and if so, how many shares (subject to a minimum of 50 shares and in blocks of 10 shares and subject to the maximum set by the Company). The Invitee may then decline to purchase Stock, agree to purchase Stock but specify a lesser number of shares than the maximum number set by the Company, or purchase the maximum number of shares. If the Financial Advisor or Registered Representative cannot reach the Invitee by the end of the first business day after pricing, the Invitee will lose the opportunity to participate in the Program. The mechanics of the sale to the Invitee is handled the same way as any other sale of the Stock to any purchaser in the public offering. The Invitees are not required to pre-fund their accounts, and payment is not required until after the Invitee has confirmed his or her indication of interest after the pricing of the offering. Invitees are not subject to a lock-up as a condition of their participation in the Program.

Print Suppression (E-mail) Method - Under this method, the Company will provide to Merrill Lynch a list of Invitees, along with their e-mail addresses and the maximum number of shares in which each such person may invest. Merrill Lynch will then send to each Invitee an e-mail in the form shown in the first page of the Print Suppression package. Should the Invitee wish, he or she would then click on the hyperlink, and would be presented with a log-in page. The log-in page would contain, among other things, the legend set forth in Rule 134 under the Securities Act of 1933. The Invitee could then log-in to the Deal Sketch page using the Deal ID and PIN number provided in the initial e-mail.

The Deal Sketch page indicates the status of the Program at the time the Invitee logs-in, which may be that indications of interest are being accepted, the response deadline has passed, the acceptance period has begun, etc. It also shows to each Invitee the number of shares in which he or she may indicate an interest, and important information about the public offering, including the relevant dates and details of the offering. The Invitee is advised to read the CEO Letter by clicking on the appropriate button. The CEO Letter advises the Invitee to review the preliminary prospectus by clicking on the embedded hyperlink, and also advises that the Invitee may review the preliminary prospectus at any time by returning to the Deal Sketch page and clicking the "prospectus" button. In addition to explaining the mechanics of the Program, the CEO Letter makes clear that the Invitee is under no obligation to purchase shares through the Program, that responding will involve no obligation of any kind, that the Invitee is not, by reason of his or her inclusion in the Program, assured of obtaining a particular number of shares or any shares, that no offer to buy shares may be accepted and no part of the purchase price can be received until the Registration Statement has been declared effective, and that any such offer to buy can be withdrawn, in whole or in part, without obligation or commitment, at any time prior to notice of its acceptance given after the effective date of the Registration Statement. The CEO Letter also contains the legend set forth in Rule 134 under the Securities Act and a series of Frequently Asked Questions about the Program, along with the answers to those questions. If the Invitee chooses to participate in the Program, the procedure is exactly the same as if the Program were being conducted according to the Print and Mail method. Please note that the Print Suppression methodology has been passed upon by Cecilia Blye, Esq. of the Office of the General Counsel of the Division of Corporation Finance.

A copy of the latest draft of the Program materials is provided supplementally for review by the staff, along with draft screen shots of the Log In Page and the Deal Sketch page. Please note that the information used on the draft Deal Sketch page is for illustration only and is subject to change.

* * * *

If you have any questions concerning the above responses, please do not hesitate to contact either the undersigned at (212) 373-3076 or John C. Kennedy at (212) 373-3025.

Sincerely,

/s/ Valérie M. Demont

Valérie M. Demont

cc: Amit Shashank, ExlService Holdings, Inc.
Rohit Kapoor, ExlService Holdings, Inc.
John C. Kennedy, Paul, Weiss, Rifkind, Wharton & Garrison LLP
Janet L. Fisher, Cleary Gottlieb Steen & Hamilton LLP
Marc Silverman, Ernst & Young, LLP