ExlService Holdings, Inc.
Form PRE 14A
December 16, 2008
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United States

Securities and Exchange Commission

Washington, D.C. 20548

SCHEDULE 14A

(Rule 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

ExlService Holdings, Inc.

(Name of Registrant as Specified in Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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350 Park Avenue

New York, New York 10022

(212) 277-7100

December   , 2008

Dear Stockholder:

On behalf of the board of directors of ExlService Holdings, Inc., I am pleased to invite you to a Special Meeting of Stockholders, which will be held on January 29, 2009, in New York City.

The Special Meeting has been called to approve an amendment to our 2006 Omnibus Award Plan to increase the number of shares of our common stock issuable thereunder by 4,000,000 shares (which will bring the total number of shares reserved under the plan to 7,729,238) and to approve the performance-based provisions of our 2006 Omnibus Award Plan and to discuss other business matters properly brought before the Special Meeting.

Whether or not you attend the Special Meeting, it is important that your shares be represented and voted at the Special Meeting. After reading the proxy statement, please promptly vote and submit your proxy by completing, dating, signing and returning the enclosed proxy card in the enclosed postage prepaid envelope. Your shares cannot be voted unless you submit your proxy or attend the Special Meeting in person.

The board of directors and management look forward to seeing you at the Special Meeting.

Sincerely,

Vikram Talwar

Executive Chairman

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350 Park Avenue

New York, New York 10022

(212) 277-7100

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

Dear Stockholder:

You are cordially invited to a Special Meeting of Stockholders of ExlService Holdings, Inc., a Delaware corporation (the Company). The Special Meeting will be held at 350 Park Avenue, New York, New York 10022, on January 29, 2009, at 10:00 am, Eastern Time, for the purposes of voting on the following matters:

1. the approval of an amendment to the ExlService Holdings, Inc. 2006 Omnibus Award Plan to increase the number of shares authorized for issuance thereunder by 4,000,000 shares (which will bring the total number of shares reserved under the plan to 7,729,238) and the approval of the performance-based provisions of the ExlService Holdings, Inc. 2006 Omnibus Award Plan; and

2. the transaction of such other business as may properly come before the Special Meeting or any adjournment or postponement thereof.

If you are a stockholder of record at the close of business on , you are entitled to vote at the Special Meeting. A list of stockholders as of the record date will be available for examination for any purpose germane to the Special Meeting, during ordinary business hours, at the Company s executive offices at 350 Park Avenue, New York, New York 10022, for a period of 10 days prior to the date of the Special Meeting and at the Special Meeting itself.

Whether or not you expect to attend the Special Meeting in person, we encourage you to promptly vote and submit your proxy by completing, signing, dating and returning the enclosed proxy card in the postage prepaid envelope provided. Voting by proxy will not deprive you of the right to attend the Special Meeting or to vote your shares in person. You can revoke a proxy at any time before it is exercised by voting in person at the Special Meeting, by delivering a subsequent proxy or by notifying the inspector of elections in writing of such revocation prior to the Special Meeting.

By Order of the Board of Directors
Amit Shashank
Vice President, General Counsel and
Corporate Secretary

New York, New York

December , 2008

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350 Park Avenue

New York, New York 10022

(212) 277-7100

PROXY STATEMENT

INFORMATION CONCERNING VOTING AND SOLICITATION

This Proxy Statement is being furnished to you in connection with the solicitation by the board of directors of ExlService Holdings, Inc., a Delaware corporation (us, we, our or the Company), of proxies to be used at the special meeting (the Special Meeting) of the Stockholders o Company to be held at 350 Park Avenue, New York, New York 10022, at 10:00 am, Eastern Time, on January 29, 2009, and any adjournments or postponements thereof. This Proxy Statement and the accompanying form of proxy card are being mailed to stockholders on or about December , 2008.

Who Can Vote

Only stockholders who owned shares of our common stock at the close of business on , the record date for the Special Meeting, can vote at the Special Meeting. As of the close of business on the record date, we had shares of common stock outstanding and entitled to vote. Each holder of common stock is entitled to one vote for each share held as of the record date for the Special Meeting. There is no cumulative voting in the election of directors.

How You Can Vote

If your shares are registered directly in your name with Registrar and Transfer Company, our transfer agent (which means you are a stockholder of record), you can vote your proxy by completing, signing, dating and returning the enclosed proxy card in the enclosed postage prepaid envelope. Please refer to the specific instructions set forth in the enclosed proxy card.

If you are the beneficial owner of shares held in the name of a brokerage, bank, trust or other nominee as a custodian (also referred to as shares held in street name), your broker, bank, trustee or nominee will provide you with materials and instructions for voting your shares.

Voting at the Special Meeting. Voting by mail will not limit your right to vote at the Special Meeting if you decide to attend in person. Our board of directors recommends that you vote by mail as it is not practical for most stockholders to attend the Special Meeting. If you are a stockholder of record, you may vote your shares in person at the Special Meeting. If you hold your shares in street name, you must obtain a proxy from your broker, bank, trustee or nominee giving you the right to vote the shares at the Special Meeting.

Revocation of Proxies

You can revoke your proxy at any time before it is exercised in any of the following ways:

by voting in person at the Special Meeting;

by submitting written notice of revocation to the inspector of elections prior to the Special Meeting; or

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by submitting another properly executed proxy of a later date to the inspector of elections prior to the Special Meeting.

Required Vote; Effect of Abstentions and Broker Non-Votes

Quorum

A quorum, which is a majority of the issued and outstanding shares of our common stock as of , must be present to hold the Special Meeting. As of the record date, there were shares of our common stock issued and outstanding and entitled to vote at the Special Meeting. A quorum is calculated based on the number of shares represented by the stockholders attending the Special Meeting in person and by their proxy holders. If you indicate an abstention as your voting preference for all matters to be acted upon at the Special Meeting, your shares will be counted toward a quorum but they will not be voted on any matter.

The Proposal

The approval of the amendment to the ExlService Holdings, Inc. 2006 Omnibus Award Plan (the 2006 Plan) and each other item to be acted upon at the Special Meeting will require the affirmative vote of a majority of shares present in person or represented by proxy and entitled to vote at the Special Meeting. You may cast your vote in favor of or against this proposal or you may abstain from voting your shares. Abstentions will have the effect of a vote against this proposal.

If you submit your proxy, but do not mark your voting preference, the proxy holders will vote your shares **FOR** the approval of the amendment to the 2006 Plan and the approval of the performance-based provisions of the 2006 Plan.

Other Matters to be Acted upon at the Meeting

Our board of directors presently is not aware of any matters, other than those specifically stated in the Notice of Special Meeting, which are to be presented for action at the Special Meeting. If any matter other than those described in this Proxy Statement is presented at the Special Meeting on which a vote may properly be taken, the shares represented by proxies will be voted in accordance with the judgment of the person or persons voting those shares.

Adjournments and Postponements

Any action on the items of business described above may be considered at the Special Meeting at the time and on the date specified above or at any time and date to which the Special Meeting may be properly adjourned or postponed.

Solicitation of Proxies

We will pay the cost of printing and mailing proxy materials. Upon request, we will reimburse brokers, dealers, banks and trustees, or their nominees, for reasonable expenses incurred by them in forwarding proxy materials to beneficial owners of shares of our common stock.

Internet Availability of Proxy Materials

Our notice of meeting, proxy statement and form of proxy card are available on our website, www.exlservice.com.

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Important

Please promptly vote and submit your proxy by completing, signing, dating and returning the enclosed proxy card in the postage prepaid envelope so that your shares can be voted at the Special Meeting. This will not limit your right to attend or vote at the Special Meeting.

All Special Meeting attendees may be asked to present a valid, government issued photo identification (federal, state or local), such as a driver s license or passport, and proof of beneficial ownership if you hold your shares through a broker, bank, trust or other nominee, before entering the Special Meeting. Attendees may be subject to security inspections. Video and audio recording devices and other electronic devices will not be permitted at the Special Meeting.

If you have any further questions about voting your shares or attending the Special Meeting, please call our Investor Relations Department at (212) 277-7109.

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THE PROPOSAL

APPROVAL OF AN INCREASE TO THE SHARE POOL AND THE

PERFORMANCE BASED PROVISIONS OF THE 2006 OMNIBUS AWARD PLAN

At the Special Meeting, you are being asked to approve (1) an increase to the overall share pool of 4,000,000 shares (which will bring the total number of shares reserved under the plan to 7,729,238), (2) the applicable performance goals and (3) other performance-based provisions of the 2006 Plan to ensure that enough shares will be available for awards under the 2006 Plan and to insure that awards made under the 2006 Plan based on the performance criteria set forth in the 2006 Plan will be deductible by the Company. A copy of the 2006 Plan, reflecting the increased overall share pool, is attached as Annex A hereto.

Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), and the regulations and guidance promulgated thereunder (collectively, Section 162(m)), generally do not allow a publicly held company to obtain tax deductions for compensation of more than $1.0 million paid in any year to its chief executive officer, or any of its other three most highly compensated executive officers (other than its chief financial officer) (the Section 162(m) executive officers), unless these payments are performance-based in accordance with conditions specified under Section 162(m). One of those conditions requires the Company to obtain stockholder approval of each performance criterion that a committee of outside directors may use in granting an award under the 2006 Plan that is intended to satisfy the requirements of Section 162(m). In addition, if the committee has the authority to change the targets under a performance goal after stockholder approval of the goal, the material terms of the performance goals must be disclosed and reapproved by stockholders no later than five years after the stockholder approval was first received. Our compensation committee, which administers the 2006 Plan, has the authority to change the targets with respect to awards granted under the 2006 Plan.

Since the date of our initial public offering in October 2006, we have not been subject to the provisions of Section 162(m) because of a transitional relief exception under Section 162(m) that applies to newly-public companies. However, this transitional relief expires on the date of the Special Meeting. If this proposal is approved, and if the applicable performance goals are satisfied, this proposal would enable the Company to continue to issue awards under the 2006 Plan to its Section 162(m) executive officers and to obtain tax deductions with respect to these awards, without regard to the limitations of Section 162(m). If this proposal is not approved by stockholders, compensation attributable to grants of awards under the 2006 Plan to our Section 162(m) executive officers may not be tax deductible by us. Therefore, the compensation committee and the board of directors recommend that the stockholders approve in their entirety the material terms of the performance goals applicable to awards granted under the 2006 Plan that are intended to satisfy the requirements of Section 162(m) as described below. The compensation committee reserves the right to issue awards under the 2006 Plan to our Section 162(m) executive officers that are not tax deductible under Section 162(m).

Summary of the 2006 Plan

General. We adopted 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

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the Internal Revenue Code, or the Code, to the extent Rule 16b-3 and Section 162(m) are applicable. However, if a committee member fails to qualify under these requirements it 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 as participants 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. If the amendment is approved, under the 2006 Plan, awards for a total of 7,729,238 shares of our common stock may be granted in the aggregate (including those shares reserved for issuance under our existing India sub plans). As of September 30, 2008, options to purchase 1,849,241 shares of our common stock were issued and outstanding. As of September 30, 2008, we had outstanding 656,042 restricted shares of common stock under our 2006 Plan. No person may be granted awards of options and/or stock appreciation rights, or SARs, during any calendar year with respect to more than 600,000 shares of common stock. No more than 600,000 shares of common stock may be granted under our 2006 Plan with respect to performance compensation awards in any one year. The maximum amount payable in any calendar year to any participant 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 is 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

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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.

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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.

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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, local and payroll 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.

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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 the amount of 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, as noted above, 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 its three other officers (other than its chief financial officer) whose compensation is disclosed in its proxy statement, subject to certain exceptions. The 2006 Plan is intended to satisfy an exception with respect to grants of options to covered employees. In addition, the 2006 Plan is designed to permit certain awards of restricted stock units and other awards (including cash 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. The transitional rule will not be available for amounts paid and awards granted after the Special Meeting, although income in respect of stock awards granted before the Special Meeting will remain exempt from the Section 162(m) limit.

New Plan Benefits

Other than with respect to the grants of restricted stock and stock options that may be earned by our executive officers pursuant to their employment agreements if certain performance criteria are met, awards of restricted stock units to our non-employee directors upon joining the board of directors and annual restricted stock unit awards to our non-employee directors, if the performance-based provisions of the 2006 Plan are approved by stockholders, awards under the 2006 Plan will be determined by the Compensation Committee in its discretion and it is, therefore, not possible to predict the awards that will be made to particular officers in the future under the 2006 Plan. See Executive Compensation and Other Information Employment Agreements for a description of the material terms and conditions of the employment agreements for our Executive Officers.

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For information regarding grants made to our Executive Officers named in the Summary Compensation Table under the 2006 Plan in respect of 2007 performance, see the table entitled Grants of Plan-Based Awards below.

New Plan Benefits Table

ExlService Holdings, Inc. 2006 Omnibus Award Plan

Name and Position	Dollar Value ($)	Number of Units
Steven Gruber, Director	$	See footnote(1)
Edward Dardani, Director	$	See footnote(1)
Kiran Karnik, Director	$	See footnote(1)
David Kelso, Director	$	See footnote(1)
Clyde Ostler, Director	$	See footnote(1)
Mohanbir Sawhney, Director	$	See footnote(1)
Garen Staglin, Director	$	See footnote(1)
All current executive officers as a group		
Non-executive director group	$	See footnote(1)
Non-executive officer employee group		

(1) Under the 2006 Plan, each member of our board of directors other than Messrs. Talwar and Kapoor receive a grant on the anniversary of his board service date of restricted stock units representing 4,000 shares of our common stock. The grants provide that the restricted stock units will vest on the earlier of (i) the first anniversary of the date of grant, (ii) the end of the reporting person s term on our board of directors, and (iii) the occurrence of a change in control , as defined in the 2006 Plan. Holders of restricted stock units do not receive the underlying share of common stock until the units have vested and are settled. The restricted stock units issued to each of our directors other than Messrs. Talwar and Kapoor will settle on the earlier of (i) such directors death, (ii) the occurrence of a change in control , as defined in the 2006 Plan that satisfies the requirements of Section 409A of the Code, and (iii) 180 days following the end of such director s term on our board of directors.

Required Vote

The approval of the amendment to our 2006 Plan and the performance-based provisions of our 2006 Plan requires the affirmative vote of a majority of shares present in person or represented by proxy and entitled to vote at the Special Meeting. Unless marked to the contrary, proxies received will be voted FOR the amendment.

Our board of directors recommends a vote FOR the amendment to our 2006 Plan and the approval of the performance-based provisions of our 2006 Plan.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

We believe that the long-term success of companies that provide business processing outsourcing, or BPO, and transformation services globally and deliver high quality services to clients is linked closely with their ability to recruit, train and retain employees at every level. In addition, there is intense competitive pressure in our industry for qualified managers with a demonstrated track record of achievement and the potential for higher achievement. Accordingly, it is critical that we attract, motivate and retain highly talented individuals at all levels of the organization that are committed to our core values of accountability, innovation, excellence, urgency, integrity and mutual respect. We believe that our executive compensation programs are integral to achieving this end.

Our Compensation Committee bases its executive compensation programs on the following objectives, which guide us in establishing all of our compensation programs:

Compensation should reward performance. Our programs should deliver top-tier compensation in return for top-tier individual and company performance; conversely, where individual performance and/or our performance falls short of expectations, the programs should deliver lower-tier compensation. In addition, the objectives of pay-for-performance and retention must be balanced. Even in periods of temporary downturns in our performance, the programs should continue to ensure that successful, high-achieving employees remain motivated and committed.

Compensation should balance long-term focus that is linked with stockholder value and short-term financial objectives. Consistent with this philosophy, equity-based compensation should be higher for persons with higher levels of responsibility and greater influence on longer-term results, thereby making a significant portion of their total compensation dependent on long-term stock appreciation. In addition, compensation should focus management on achieving short-term performance goals in a manner that supports and ensures long-term success and profitability.

Compensation should be based on the level of job responsibility, individual performance and our performance. As employees progress to higher levels in the organization, they are able to more directly affect our results and strategic initiatives, and therefore an increasing proportion of their pay should be linked to our performance and stockholder value.

Compensation should reflect the value of the job in the marketplace. We compete for talent globally. In order to attract and retain a highly skilled work force, we must remain competitive with the pay of other employers who compete with us for talent in the relevant markets.

Compensation programs should be easy to understand. We believe that all aspects of executive compensation should be clearly, comprehensibly and promptly disclosed to employees in order to effectively motivate them. Employees need to easily understand how their efforts can affect their pay, both directly through individual performance accomplishments and indirectly through contributing to our achievement of our strategic and operational goals. We also believe that compensation for our employees should be administered uniformly across the company and should be administered with clear-cut objectives and performance metrics to eliminate the potential for individual supervisor bias.

Our Compensation Committee s Processes

Our Compensation Committee has established a number of processes to assist it in ensuring that our executive compensation programs are achieving their objectives. Among those are:

Assessment of Company Performance. Our Compensation Committee uses financial performance measures to determine a significant portion of the size of payouts under our cash incentive bonus program. Our financial performance measures, chosen to focus employees on improving both top-line revenues and bottom-line earnings, are pre-agreed by our Compensation Committee annually at the

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beginning of the year and are applied uniformly across the company. When we achieve the pre-agreed financial measures that are set forth in our annual operating plan, our employees that are eligible for cash incentive bonuses receive amounts that are at target. The cash incentive bonus for senior executives that have responsibility for operating divisions is also tied to the financial performance of the operating division headed by such executives. These measures reflect targets that are intended to be aggressive but attainable. The remainder of an individual s payout under our cash incentive bonus program is determined by individual performance.

Assessment of Individual Performance. Individual performance has a strong impact on the compensation of all employees, including Messrs. Talwar and Kapoor, our founder executive officers, and our other executive officers. The evaluation of an individual s performance determines a portion of the size of payouts under our cash incentive bonus program and also influences any changes in base salary. At the beginning of each year, our Nominating and Governance Committee meets separately by itself and with the founder executive officers to set their respective performance objectives for the year. The performance objectives are initially proposed by the founder executive officers and modified by the Nominating and Governance Committee based on the performance assessment conducted for the preceding year as well as for important priorities for the current year. Each agreed-upon objective is supplemented with key performance indicators. Our Nominating and Governance Committee s goal is to design key performance indicators that are objective and easily measurable. At the end of the year, our Nominating and Governance Committee meets to conduct a performance review of our founder executive officers based primarily on their respective achievement of the agreed-upon objectives as well as the founder executive officers contribution to our performance and other leadership accomplishments. This evaluation is shared initially by our Nominating and Governance Committee with our Compensation Committee and after that with our founder executive officers by the chairman and other members of our Compensation Committee. After the discussion, our Compensation Committee assigns a corresponding numerical performance rating that translates into specific payouts under our cash incentive bonus program and also influences any changes in base salary.

For our other named executive officers, our Compensation Committee receives a performance assessment and compensation recommendation from our founder executive officers. The performance assessments are based on self-evaluations by each of the direct reports of the founder executive officers, including the other named executive officers, and subsequent performance appraisals conducted by one or both founder executive officers in the presence of our Global Head of Human Resources. Our Compensation Committee reviews the performance assessments of these executives with and without our founder executive officers based on the achievement of pre-agreed objectives by each executive officer and his or her organization, his or her contribution to our performance and other leadership accomplishments as well as on an evaluation of the officer s competence. In determining the numerical performance rating that translates into specific payouts under our cash incentive bonus program and also influences any changes in base salary, our Compensation Committee may also exercise its judgment based on the board s interactions with such officers.

Benchmarking and Use of Compensation Consultant. Our Compensation Committee reviews our executive compensation programs relative to publicly available compensation data compiled directly for our Compensation Committee by our Global Head of Human Resources for a group of companies that provide business and technology services. Our Global Head of Human Resources prepares the information for our Compensation Committee based on input from Equilar, Inc., a compensation data provider that we have engaged for the sole purpose of providing such data. At the time that compensation decisions were taken for our U.S.-based executive officers in 2007, there were few public companies directly comparable to us. Accordingly, our Compensation Committee reviewed the publicly available information for recently public companies and other companies that provided similar services and that had similar market capitalizations and annual revenues. In addition, they considered companies that had recently become public companies since our initial public offering in the last quarter of 2006 and that were located in the most relevant geographic area for each executive officer. Different companies were considered for the compensation benchmark review of each executive

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officer. Where compensation information was not publicly disclosed for a specific management position, our Compensation Committee reviewed data corresponding to the most comparable position and also considered the comparative experience of executives. The list of companies against which we benchmarked the compensation of our U.S.-based executive and other senior officers in 2007 included the following companies:

Similar Business	Comparable Market Capitalization and Revenues	Newly Public Companies
Cognizant Technology Solutions Corporation	The Hackett Group, Inc.	Blackbaud, Inc.
Infosys Technologies Limited	CSC Covansys Corporation	Blackboard Inc.
Gevity HR, Inc.	Diamond Management & Technology Consultants, Inc.	Huron Consulting Group Inc.
CapGemini Financial Services International Inc.	FirstConsulting Group Inc.	Leadis Technology, Inc.
Syntel, Inc.	iGate Corporation	Salesforce.com, Inc.
Wipro Limited	LECG Corporation	Volterra Semiconductor Corporation
	MTC Technologies Inc.	
	Ness Technologies Inc.	

Our Compensation Committee will review and revise as appropriate from time to time the list of companies with publicly available compensation information against whom we will benchmark our compensation programs, to ensure that such list includes those companies that are most comparable to us with regard to services provided and relevant geographic areas. For geographic areas where we are not able to obtain reliable publicly available compensation data for our executive officers because such information is not legally required to be disclosed, such as India, our Global Head of Human Resources uses data from a variety of private and informal sources, none of which are paid for providing such data.

Our Compensation Committee uses the data primarily to ensure that our executive compensation programs, including for executive officers are competitive. We incorporate flexibility into our compensation programs and in the assessment process to respond to and adjust for the evolving business environment. Accordingly, our Compensation Committee adjusts individual executive compensation elements based on changes in job responsibilities of the executive, the performance of the executive or the combination of qualifications and skills that an executive uses to enhance our performance. Neither we nor our Compensation Committee has any contractual arrangement with any compensation consultant who has a role in determining or recommending the amount or form of director or executive officer compensation.

Total Compensation Review. Our Compensation Committee designs the categories and presentation of compensation information required to evaluate each executive s base pay, cash incentive bonus and equity incentives when changes in compensation are considered by our Compensation Committee and requests our Global Head of Human Resources to compile such information. Although many compensation decisions are made in the first quarter of the fiscal year, our compensation planning process neither begins nor ends with any particular Compensation Committee meeting. Compensation decisions are designed to promote our fundamental business objectives and strategy. Our Compensation Committee periodically reviews related matters such as succession planning, evaluation of management performance and consideration of the business environment and considers such matters in making compensation decisions.

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Each named executive officer and our other executive officers is party to an employment agreement or letter that sets forth the terms of his or her employment, including compensation. Our named executive officers in 2007 were our principal executive officer, our principal financial officers, and our three most highly compensated executive officers other than the above-named officers. The employment agreements for our founder executive officers have specified expiration terms. The employment letters for our other executive officers do not have specified expiration terms and are terminable by either the executive or us at will. If decisions are made by our Compensation Committee that materially change the terms of employment of an individual executive officer or modify existing compensation programs, we communicate the information to the concerned officer or company-wide, as the case may be.

Components of Executive Compensation for 2007

For 2007, the compensation of executive officers consisted of the following five primary components:

- base salaries or, in the case of our executive officers based in India, fixed compensation;
- cash incentive bonuses;
- equity incentives of stock options and/or restricted stock;
- benefits and perquisites; and
- severance benefits.

Our mix of compensation elements is designed to reward recent results, motivate long-term performance and encourage our executives to remain with us for longer terms through a combination of cash and equity incentive awards. Base salaries and cash incentive bonuses are designed to reward annual achievements and be commensurate with the executive s scope of responsibilities, demonstrated leadership abilities, and management experience and expertise. Our other elements of compensation focus on motivating and challenging the executive to achieve sustained and longer-term results. We generally do not adhere to rigid formulas or necessarily react to short-term changes in business performance in determining the amount and mix of compensation elements. However, we do rely on the formulaic achievement of pre-agreed financial performance measures in connection with determining a significant portion of the cash incentive bonuses for our executive officers and other members of management. We believe the most important indicator of whether our compensation objectives are being met is our ability to motivate our executive officers to deliver superior performance and retain them to continue their careers with us on a cost-effective basis.

Our Compensation Committee believes that these programs balance both the mix of cash and equity compensation, the mix of currently-paid and longer-term compensation, and the security of comprehensive and severance benefits in a way that furthers the compensation objectives discussed above. The periodic review of each executive s base pay, cash incentive bonus and equity incentives by our Compensation Committee is intended to maintain the appropriate balance for each executive officer based on their roles and responsibilities. With the exception of compensation elements that are linked to individual performance, our Compensation Committee believes that our founder executive officers should receive similar compensation.

Following is a discussion of our Compensation Committee s considerations in establishing each of the compensation components for our executive officers.

Base Salary

Base salary is a fixed element of employees annual cash compensation, the payment of which is not tied to our performance. We provide the opportunity for each of our named executive officers and other executive officers to earn a competitive annual base salary. We provide this opportunity to attract and retain an appropriate caliber of talent for the position and to provide a base wage that is not subject to our performance risk. We review base salaries for our named executive officers annually in the first half of each year and increases are

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based on our performance and individual performance. Base salary determinations reflect the individual s experience, knowledge, skill set and the market value of that skill set. In setting base salaries for 2007, our Compensation Committee considered the following factors:

- *Individual performance.* As described above under Our Compensation Committee s Processes, base salary increases take into account individual performance and competence assessments.

- *Market data specific to the executive s position, where applicable*. As noted above, our Compensation Committee used certain geographical and market data to test for reasonableness and competitiveness of base salaries, but we also exercised subjective judgment based on the rapid growth of our industry and in view of our compensation objectives.

- *Consideration of the mix of overall compensation.* Consistent with our compensation objectives, as employees progress to higher levels in the organization, a greater proportion of overall compensation is directly linked to our performance and stockholder value. Thus, for example, the founder executive officers overall compensation is more heavily weighted toward incentive compensation and equity compensation than that of the other executive officers.

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