

ExlService Holdings, Inc.
Form 10-K
March 03, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE YEAR ENDED DECEMBER 31, 2013

OR

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

COMMISSION FILE NUMBER 001-33089

EXLSERVICE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

82-0572194
(I.R.S. Employer
Identification No.)

280 PARK AVENUE, 38 TH FLOOR,

NEW YORK, NEW YORK
(Address of principal executive offices)

10017
(Zip code)

(212) 277-7100

(Registrant's telephone number, including area code)

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

Title of Each Class:
Common Stock, par value \$0.001 per share

Name of Each Exchange on Which Registered:
NASDAQ Global Select Market

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

None

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

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

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2013, the aggregate market value of common stock held by non-affiliates was approximately \$926,644,427.

As of February 24, 2014, there were 32,518,425 shares of the registrant's common stock outstanding (excluding 1,188,385 shares held in treasury), par value \$0.001 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information from certain portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the fiscal year end of December 31, 2013.

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PART I.

ITEM 1. Business

We are a leading provider of business process solutions, utilizing operations management, analytics and technology. We use our focused industry and process expertise to create a positive business impact on our clients' operations. We customize our services to improve the economics of our clients' business performance, and we transform organizations to be leaner and more flexible.

We break our business into two segments: outsourcing and transformation services. Our outsourcing services provide front-, middle- and back-office processing for our clients. Outsourcing services involve the transfer to us of select business operations of a client, such as claims processing, policy administration, and finance and accounting, after which we administer and manage the operations for that client on an ongoing basis. Our transformation services include decision analytics, finance transformation and operations consulting services. These transformation services provide additional insight into our clients' future financial and operational results, improve their operating environments through cost reduction, increase efficiency and productivity initiatives, and enhance the risk and control environments within our clients' operations, whether or not they are managed by us. We serve primarily the needs of Global 1000 companies in the insurance, healthcare, utilities, banking and financial services, and travel, transportation and logistics sectors.

Our services include:

We combine in-depth knowledge of the industry sectors in which we focus with proven expertise in transferring business operations of our clients to our offshore and onshore delivery centers, and administering and managing such operations. We have successfully transferred more than 1,000 processes covering a broad array of products and services to our operations centers, including approximately 160 new processes that were transferred to us in 2013.

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Our operations centers are located in India, the Philippines, the U.S., the Czech Republic, Bulgaria, Malaysia and Romania. Our geographic footprint enables us to leverage a large pool of highly qualified and educated technical professionals who are able to handle complex processes and services that require functional skills and industry expertise.

While a majority of our professionals provide services in the English language, our operations in the Czech Republic, Bulgaria and Romania provide multi-lingual delivery capabilities. We believe we can consistently offer high quality services at substantially lower costs than those available from U.S.- or U.K.-based in-house facilities or U.S.- or U.K.-based outsourcing providers. As of December 31, 2013, we had a headcount of approximately 22,200 employees, out of which approximately 18,000 were based in India. Our operations platforms are supported by a state-of-the-art infrastructure that can be expanded to meet each client's needs. We market our services directly through our sales and marketing and client management teams, which operate from the U.S. and Europe. Our senior managers have extensive experience in the industry sectors on which we are focused, and are well versed in the business practices of leading multinational corporations.

We believe our reputation for operational excellence is widely recognized by our clients and is an important competitive advantage. We use Lean and Six Sigma, which are data-driven methodologies for eliminating defects in any process, to identify process inefficiencies and improve productivity in client and support processes. We deliver continued process enhancements by soliciting and implementing process improvements from employees and through our proprietary software tools. As a part of our commitment to quality, information security and employee safety, several of our delivery centers are certified to various standards, such as the ISO 9001:2008 standard for quality management system, the ISO 27001:2005 standard for our information security management system and the OHSAS 18001:2007 standard for our occupational health and safety management system. Certain client operations processes in our operations center in the Philippines are certified as compliant with the Payment Card Industry Data Security Standard. We have received an unqualified SSAE 16 (SOC I Type II) report on general controls from Ernst & Young Pvt. Ltd., an affiliate of our independent registered public accounting firm, for several delivery centers and certain client operations processes. Our clinical processes in Manila, the Philippines, are accredited by URAC, a leading healthcare and education accreditation organization.

Services

Outsourcing Services

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

Insurance. We have established a leadership position in servicing property and casualty insurance, life insurance, and retirement services companies. In 2013, the research firm Everest Group ranked EXL as a Leader in the U.S. insurance BPO market. We have expertise in the areas of claims processing, premium and benefit administration, agency management, account reconciliation, policy research, underwriting support, new business processing, policy servicing, trades/sub-account transactions, add-on processing, premium audit, billing and collection and customer service. We have acquired significant experience in transferring and managing processes in these areas.

We have intensified our use of proprietary technology tools and platforms to provide increasingly complex services for our insurance clients. In October 2011, through our acquisition of Trumbull Services, LLC (Trumbull), we acquired the capability to provide subrogation services to property and casualty insurers and health insurers as well as access to a software platform called SubroSource . In connection with our acquisition of Professional Data Management Again, Inc. (PDMA), in April 2010, we acquired an insurance policy administration platform called

LifePRO[®] to administer life insurance, health insurance, annuities and credit life and disability insurance policies.

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Our services include:

Healthcare. We have differentiated experience as a business process solutions provider for the rapidly changing healthcare industry, primarily serving U.S.-based health insurers or payers.

We have built significant capability to manage clinical operations for payers, utilizing our global network of highly trained healthcare professionals, with the goal of providing improved clinical, financial and performance outcomes for our clients. We also provide back office support, such as member enrollment, claims adjudication and finalization, and billing and collections management.

In addition, we provide and run technology platforms specifically designed to serve the healthcare industry. Through our 2012 acquisition of Landacorp, Inc. (Landacorp), we acquired leading healthcare management software platforms (CareRadius® and MaxMC®), which connect payers, providers and members with critical clinical information, and automate a payers' operations to increase efficiency. In 2013, we also introduced MedConnection, a proprietary medical information analysis tool, which empowers adjusters, attorneys and medical staff to perform fewer non-core activities (e.g. file organization, duplication, and identification) and more effectively accomplish core activities (e.g. negotiation preparation).

Our services include:

Utilities. We provide end-to-end services for the back-office operations of utilities companies in service areas such as meter to cash, portfolio and energy balancing, debt management and customer service. A large part of these services involves complex processing of transactions.

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Our services include:

Banking and Financial Services. We have diverse experience in servicing and processing various banking products, including residential mortgage lending, retail banking and credit cards, commercial banking and investment management.

Our services include:

Travel, Transportation and Logistics. We have expertise in managing and improving operational, financial and analytical functions for clients in the travel, transportation and logistics industries. We provide end-to-end, front-, middle- and back-office services to companies in the corporate and leisure travel management industry. In addition, we have expertise in processing transportation and logistics transactions, including end-to-end supply chain management, warehousing, transportation management and international logistics services. We also provide highly complex operational and analytical services to airlines, trucking and shipping companies, ocean carriers and logistics providers.

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Our services include:

Finance and Accounting. We provide outsourcing services to our clients' finance organizations through our finance and accounting center of excellence. We provide integrated end-to-end finance and accounting outsourcing services across an array of finance and accounting service cycles, including procure to pay, order to cash, hire to retire, record to report and treasury and tax processes, in part by leveraging our deep capabilities in finance transformation, decision analytics and a number of tools and methodologies which are proprietary or available through a number of partnerships with third parties. Our partnerships include, among others, BlackLine Systems, a leading provider of enterprise-class software applications designed to automate and control the entire financial close process, GT Nexus, a leading provider of cloud-based business network platforms for global trade and supply chain management to provide platform-based business process solutions to the global transportation and logistics industry and Sungard Advantgard GETPAID, a leading provider of credit risk monitoring, statistical scoring, collections automation, dispute management and cash application software with advanced reporting and dashboards to provide platform based receivable management solutions to help companies embed best practices for improved management of trade receivables. Our finance and accounting outsourcing services are provided to clients across a broad spectrum of industries.

Our services include:

Transformation Services

We offer a number of services that we refer to collectively as transformation services. These offerings include decision analytics, finance transformation and operations consulting.

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These transformation services focus on improving our clients' operating environments, whether or not they are managed by us, through cost reduction, additional insight for business forecasting, enhanced efficiency, higher productivity, improved effectiveness of business decisions and creation of an improved risk and control environment. We have experienced a significant increase in demand for our annuity-based transformation services, which are engagements that are contracted for periods of one year or more. We actively cross-sell and, where appropriate, integrate our transformation services with our outsourcing services as part of an integrated solution for our clients. Our transformation services team is comprised of over 1,300 professionals.

Decision Analytics

Our decision analytics services involve accessing and analyzing large volumes of data from multiple sources in order to understand historical performance or behavior to predict particular outcomes. We utilize the insights that we generate to assist our clients in making better and data-driven business decisions, which are in turn expected to lead to tangible financial benefits. Services offered include data filtering, organization and synthesis, management information system reporting, trend and variance analysis, statistical and econometric modeling, and economic and financial markets research.

Our focus areas include marketing and customer analytics, risk analytics, operations analytics and finance and investment analytics. Our offerings often utilize our operations expertise within certain targeted industries, which is then complemented by analytical techniques, technology tools and methodologies to deliver quantitative modeling, proprietary intellectual property and business intelligence for our clients.

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

Our services include:

Finance Transformation

Our finance transformation services include governance, risk and compliance, accounting advisory services, finance organizational design, finance process optimization, and finance systems advisory.

As part of our finance organization design services, we assist our clients with the design and implementation of various target operating models, outsourcing and shared service programs. Our finance process optimization services help our clients evaluate the efficiency, effectiveness and internal controls of their finance and accounting processes including management information systems and decision support, through various diagnostic methods including benchmarking. Our finance systems advisory services provide consulting and implementation support for various finance automation and system optimization initiatives. Our governance, risk and compliance services include compliance advisory and support, internal audit and controls monitoring services. Our accounting advisory and reporting services include transaction assurance, general accounting, financial reporting and finance and accounting process optimization services. Many of our professionals who provide these services are certified accountants, internal auditors and process and technology experts.

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Our services include:

Operations Consulting

We assist clients in understanding, controlling and improving their business processes with a view to increasing their effectiveness at an optimized cost structure. We utilize Lean and Six Sigma methodologies to advise our clients on cost reduction initiatives and subsequently manage the implementation of our recommendations. Our services also identify business processes that can be improved by documenting processes, creating standard operating procedures, defining metrics and evaluation criteria as well as generating customized dashboards and reporting using our proprietary methodologies. By diagnosing problems in existing processes, we are able to assist our clients in improving their operations by modifying, eliminating or automating certain activities.

Our services include:

Geographic and Segment Information

Please see the disclosures in Notes 4 and 14 to our consolidated financial statements for segment and geographic information regarding our business.

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Business Strategy

Our goal is to continue to be a leading provider of business process solutions in the industry sectors on which we are focused. Specific elements of our growth strategy include:

Drive Business Impact for Clients by Offering Industry-Specific Business Process Solutions that Integrate Operations Management, Analytics and Technology

In servicing our clients, we seek to differentiate ourselves by emphasizing the broad range of operations management, analytics and platform technology services that we provide. We believe that clients are increasingly viewing their service providers as long-term partners that provide a full range of service offerings. By leveraging our broad range of services and improving our clients' operations through tangible measures such as revenue enhancement, revenue and expense leakage prevention, cost reduction, write-off reduction and working capital reduction, we can provide our clients with a positive business impact and create a long-term partnership.

Utilizing Innovative Approaches to Enhance Margin Sustainability

We believe that we can better enhance our margin sustainability by utilizing innovative delivery and pricing approaches. Successful innovative delivery approaches will require the use of acquired, licensed or internally developed intellectual property, methodologies and analytical models as well as a range of proprietary technology tools. These innovative delivery approaches are typically specialized for the industry sectors on which we focus.

In this light, we have significantly increased our use of proprietary technology tools and platforms through a combination of acquisitions, in-house development and licensing of third party technology. Our Landacorp acquisition has provided us with leading healthcare management software platforms (CareRadius® and MaxMC®) that manage clinical data for over 50 million lives, while our PDMA and Trumbull acquisitions have provided us with the LifePRO® and SubroSource™ platforms for our clients in the life and property and casualty insurance sectors, respectively. We have also built proprietary platforms such as the Freight Bill Audit and Payment platform to automate the receipt, validation and exception processing of customer invoices for our clients in the transportation and logistics sectors. In 2013, we built MedConnection, a proprietary medical information analysis tool, which empowers adjusters, attorneys and medical staff to perform fewer non-core activities (e.g. file organization, duplication, and identification) and more effectively accomplish core activities (e.g. negotiation preparation).

In addition, we believe that the increased utilization of transaction-based and other innovative pricing models, supplemented by these innovative delivery approaches, may also enhance the sustainability of our margins while delivering increased value to our clients. Currently, a majority of our revenues are billed to our clients on a time and materials basis. We intend to increase the number of processes in which we utilize transaction-based and other innovative pricing to better align our incentives with our clients, thereby assisting them with variable cost structures and driving service improvements.

Extending Our Industry Expertise

We have developed expertise in transferring and servicing more than 1,000 outsourcing processes to our operations centers, including more than 650 processes in the insurance and healthcare industry. This expertise continues to distinguish us from other providers of outsourcing services and has established our reputation as a leading provider of outsourcing services. We intend to continue to strengthen our processing capabilities by focusing on more complex and value-enhancing services that are common to these sectors. We supplement our innovative delivery and pricing approaches with several industry-specific training academies to enhance the domain expertise of our employees.

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Cultivating Large-scale, Long-term Relationships and Expanding Our Existing Client Base

We intend to continue to maintain our focus on large-scale, long-term client relationships. We believe there are significant opportunities for additional growth with our existing clients, and we seek to expand these relationships by increasing the depth and breadth of the services we provide. We also believe that our geographically distributed network of operations centers will enable us to expand our client base and range of services. Our domain expertise and long-term client relationships enable us to provide more fully integrated and innovative outsourcing and transformation services and develop closer relationships with our clients.

We will also continue to initiate long-term relationships with small and medium sized companies in our focus industries and expand our relationships with such companies over time. 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 be highly selective and seek industry-leading clients, targeting Global 1000 companies that have the most complex and diverse processes and, accordingly, stand to benefit significantly from our services.

Continuing to Invest in Our People and Operational Infrastructure

We intend to continue to invest in infrastructure, including human resources, process optimization and delivery platforms, to meet our growing client requirements. We intend to further refine and supplement the innovative methods we use to recruit, train and retain our skilled employees. We intend to continue focusing on recruiting highly qualified employees and developing our employees' leadership skills through specialized programs, rigorous promotion standards, industry-specific training and competitive compensation packages that include incentive-based compensation. During 2013, we launched new operations centers in Cebu, Philippines and Kochi, India.

Pursuing Strategic Relationships and Acquisitions

We intend to continue to selectively consider strategic relationships with industry leaders that add new long-term client relationships, enhance the depth and breadth of our services and complement our business strategy. We also intend to selectively consider acquisitions, partnerships, alliances or investments that will expand the scope and effectiveness of our services by adding proprietary technology assets and intellectual property, adding new clients or allowing us to enter new geographic markets.

Our Industry

BPO service providers work with clients to develop and deliver operational improvements with the goal of achieving higher performance at lower costs. Organizations transfer their key business processes to third parties to reduce costs, improve process quality, handle increased transaction volumes and reduce redundancy. Third-party BPO 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. Increased global demand, cost improvements in international communications and the automation of many business services have created a significant opportunity for offshore BPO providers, and many companies are moving select office processes to providers with the capacity to perform these functions from overseas locations.

Companies have historically used BPO providers to drive revenue growth by expanding service offerings that otherwise would be too costly to administer or by enhancing receivable collections that would otherwise not be cost-efficient to pursue using internal staff. We believe the demand for BPO services will be primarily led by

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industries that are transaction-driven and that require significant customer interactions. The high cost of servicing a large number of small customer accounts makes outsourcing a compelling strategic alternative for such industries.

Companies are increasingly looking to providers of analytics services to apply statistical tools, models and techniques to clean, organize and examine structured and unstructured corporate data and thereby to generate specific business-related analysis and insight into their business and prospects using this data. The enhanced generation of business data across multiple formats, substantial reduction in data storage costs, growing enterprise demand for data-driven and real-time decision making and availability of sophisticated analytics tools have enabled companies to overcome a local shortage of specialized analytics talent and benefit from global labor markets. Service providers who can develop industry-specific analytics expertise are especially well poised to benefit from this global trend.

According to Nasscom (India's National Association of Software and Service Companies), an industry trade organization, exports from India in the information technology and business process management industry are expected to grow between 13% and 15% year-over-year in the fiscal year ending March 31, 2015, to between \$97 billion and \$99 billion.

Trend Toward Offshore Delivery of BPO and Analytics Services

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

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

In analytics services, India has also emerged as a leading delivery location, driven by a large quantitatively-trained workforce and attractive cost efficiencies, as compared to other locations. By 2015, the Indian offshore data analytics market is expected to be approximately \$1.2 billion in size, having grown at a CAGR of 25% since 2010, according to Avendus Capital Private Limited, an Indian financial advisor. We offer a global analytics delivery model and operate multiple analytics centers of excellence in India and other locations globally.

Sales and Marketing and Client Management

We market our services to our existing and prospective clients through our sales and client management teams, which are aligned by industry verticals and cross-industry domains such as finance and accounting. Our sales and client management teams operate from the U.S. and Europe and are supported by our business development team.

Our sales, marketing and business development teams are responsible for new client acquisitions, public relations, relations with outsourcing advisory companies, brand awareness and participation in industry forums and conferences. Our sales, marketing and business development teams identify prospective clients based on selective criteria that apply our industry expertise to the prospective client's business units and services, goals and operating constraints, and qualify the long-term relationship potential with the client. Our client relationships vary from a single discrete process

to multiple complex integrated processes.

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

Our sales and client management professionals focus on identifying, qualifying and initiating discussions with our current and prospective clients. They operate collaboratively with our business development team which prepares responses to requests for proposals, hosts client visits to our facilities and coordinates due diligence on processes to be outsourced to us.

As of December 31, 2013, we employed approximately 106 sales, marketing, business development and client management professionals the majority of which are based in either the U.S. or Europe. Each professional has significant experience in global outsourcing and expertise in identifying outsourcing opportunities and process migration. Our sales, client management, marketing and business development teams work actively with our service delivery team as the sales process moves closer to the client's final decision to either select or expand a service provider relationship. The client executive or sales executive works with the service delivery team to define the scope, services, assumptions and execution strategies for each proposed project and to develop project estimates, pricing and sales proposals. Our senior management reviews and approves each proposal. The selling cycle varies depending on the type of service required, generally ranging from six months to eighteen months for our outsourcing services.

Members of our sales, client management, marketing and business development teams remain actively involved in a project through the execution phase. Each client team consists of a corporate sponsor, executive steering committee, operations leadership team and, in some cases, a dedicated human resources, technology and infrastructure team.

Clients

We generated revenues from approximately 280 clients in 2013. Our top three, five and ten clients, respectively, generated 25%, 37% and 58% of our revenues in 2013. In 2012, our top three, five and ten clients, respectively, generated 26%, 39% and 59% of our total revenues. 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 ten largest clients could have a material adverse effect on our financial performance. See Item 1A. Risk Factors Risks Related to Our Business We have a limited number of clients and provide services to few industries. In 2013, approximately 58% of our total revenues came from top ten clients.

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

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

Competition

Competition in the BPO services industry is intense and growing. See Item 1A. Risk Factors Risks Related to Our Business We face significant competition from U.S.-based and non-U.S.-based outsourcing and

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

We compete primarily against:

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

the BPO divisions of large IT service companies and global BPO services companies, such as Accenture, Cognizant Technology Solutions, Tata Consultancy Services and Infosys;

niche providers that provide services in a specific geographic market, industry or service area such as analytics and healthcare; and

leading accounting and management consulting firms.

We compete against these entities by establishing ourselves as a service provider with deep industry expertise, superior operational capabilities and process expertise, and unique transformation service capabilities, which enables us to respond rapidly to market trends and the evolving needs of our clients in this sector. See Business Strategy Drive Business Impact for Clients by Offering Industry-Specific Business Process Solutions that Integrate Operations Management, Analytics and Technology, and Extending Our Industry Expertise.

We expect that competition will increase. A significant part of our competitive advantage has historically been a wage cost advantage relative to companies in the U.S. and Europe and the ability to attract and retain highly experienced and skilled employees. We believe, however, that as a result of rising wage costs in India and other locations of our operations centers and the infrastructure improvements that are taking place in other emerging markets around the world, our ability to compete effectively will increasingly depend on our ability to utilize innovative approaches that rely on our industry expertise as well as a broad range of operations management, analytics and platform technology services to create a positive business impact for our clients.

Intellectual Property

Our principal intellectual property consists of trademarks, copyrighted software and other materials, proprietary and licensed platforms, filed patent applications, trade secrets, and the know-how of our management and employees. We have several trademarks and logos registered with the U.S. Patent and Trademark Office and certain foreign jurisdictions. We also consider the availability of patent protection for certain proprietary technology, and have filed certain patent applications.

We often 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 and third parties with respect to the use of their software systems and platforms. Clients typically obtain consents for us to access and use third party software licenses held by the client so that we may provide our services.

Our contracts usually provide that intellectual property created during an engagement for a client will be considered to be work product that is owned by the client or otherwise assigned to that client, unless the client agrees that we will own that intellectual property.

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We consider our business processes and implementation methodologies to be trade secrets or confidential, proprietary information that includes trade secrets that are important to our business. Clients and business partners sign nondisclosure agreements requiring confidential treatment of our information. Our employees are also required to sign intellectual property assignments and confidentiality undertakings as a condition to their employment.

Technology

We have a robust transnational wide area network and international telecommunications capacity to support our global business operations. Our infrastructure is built to industry standards, leveraging leading technology providers and partners. Our business continuity management includes plans to mitigate and manage operational risks by building resilience and redundancies in the telecommunications and network infrastructure, systems, computing, power, and trained talent availability across our service delivery locations.

We customize our technology solutions in line with our clients' business and outsourcing requirements. Our technology teams are comprised of expert professionals from technology project management, transitions, infrastructure management, technology operational service delivery, information security, business continuity, product development and business process automation. This allows us to have a range of technology offerings and services to deliver value to our clients through various types and stages of our client engagements.

We seek to understand our clients' business, outsourcing and transformational requirements, processes and systems and to develop and implement customized solutions for our clients and to deliver reliable services that facilitate the right-shore delivery and efficient management of their business processes.

We have a well-rounded suite of vertical specific and cross-vertical horizontal technology-enabled products and business process automation tools and wrappers that are provided as embedded capabilities in our business solutions offerings.

We have a strong focus on information security and data protection for our clients and their customers to ensure compliance with the established confidentiality policies and regulations governing our activities.

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 450 quality compliance analysts and customer experience analysts.

For most of our operations processes, we report process performance on B-ProMPT, our proprietary web-based application accessible by both our clients and us. B-ProMPT includes process control capabilities such as digital dashboards for evaluating process management and performance at any level within an organization, including tracking the individual performance of agents, supervisors and other employees. B-ProMPT includes advanced analytics capacity to provide Six Sigma-based process analysis, including trend analysis, distribution analysis and correlation analysis and tracking.

Employees

As of December 31, 2013, we had a headcount of approximately 22,200 individuals, out of which approximately 18,000 employees were based in India. We have approximately 800 employees in the U.S. and the U.K.,

approximately 2,800 employees in the Philippines and over 500 employees in the Czech Republic,

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Bulgaria and Romania. Our employees are not unionized. We have never experienced any work stoppages and believe that we enjoy good employee relations.

Hiring and Recruiting

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

We have developed effective strategies that enable an efficient recruitment process. We have approximately 100 employees dedicated to recruitment. Some of the strategies we have adopted to increase efficiency in our hiring practices include online voice assessment and a centralized hiring center. Our hiring policies focus on identifying high quality employees who demonstrate a 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, where permitted and as required by clients or on a sample basis. In addition, where permitted and required for client services, we perform random drug testing on the workforce on a regular basis. In 2013, we received more than 39,000 applications for employment and hired approximately 8,400 new employees. We also have an employee referral program that provides us with a cost effective way of accessing qualified potential employees.

We offer our employees competitive compensation packages that include significant incentive-based compensation and offer a variety of benefits that vary by facility, including free transport to and from home in certain circumstances, subsidized meals and free access to recreational facilities that are located within some of our operations centers. Our turnover rate for employees who had been with EXL for more than 180 days was 25.8% for the year ended December 31, 2013. As competition in our industry increases, our turnover rate could increase. See Item 1A. 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. On December 31, 2013, we had over 373 certified trainers. Our trainers work with professionals in our recruitment, operations and quality control teams to create an end-to-end process for value addition, skill evaluation, skill enhancement and certification. We also use training to provide continuity by linking skill assessment at the point of recruitment to subsequent assessment and on-the-job training.

We customize our training to country, client, industry and service, closely collaborating with the clients throughout the training process. In 2013, approximately 5,400 employees received training for the insurance industry and processes at our insurance academy established in 2009. Our finance and accounting academy, inaugurated in November 2011, trained approximately 3,150 employees in basic accounting, payroll and taxation during 2013. Our healthcare academy, inaugurated in Manila, Philippines in 2012, trained over 570 employees during the year, and our travel academy, inaugurated in Gurgaon, India in 2011, trained over 450 employees. Training for new employees includes culture, voice and accent training. We also have ongoing training that includes refresher training programs and personality development programs. We also conduct mandatory legal and compliance related trainings globally, which covered substantially all of our employees in 2013. We develop our employees leadership skills through various capability development programs, talent identification and performance management mechanisms, and significant monetary and non-monetary incentives. The overall participation in various programs administered in 2013 resulted in approximately 50,000 days of training. We have also created career development programs for our middle

and junior level management employees, helping them define and identify their career paths within the company. In 2013, we provided training to over 650 of our junior and middle managers at the EXL School of Management Development, which was launched in 2010.

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In 2013, we launched a focused and robust global senior leadership development program, in partnership with a leading HR consultancy firm, aimed towards building a strong leadership brand and enhancing our management capacity.

Regulation

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

We are one of the few service providers that can provide third-party administrator insurance services from India and the Philippines, having been licensed or exempted from, or not subject to, licensing in 45 states and 16 states, respectively. Additionally, we are licensed or otherwise eligible to provide third-party administrator services in all states within the U.S. Certain of our debt collection, utilization review, workers compensation utilization review and telemarketing services require us to maintain licenses in various jurisdictions or require certain categories of our professionals to be individually licensed. We continue to obtain licenses required by our business operations.

Our operations are also subject to compliance with a variety of other laws, including the U.S. federal and state regulations, that apply to certain portions of our business, such as the Fair Credit Reporting Act, the Gramm-Leach-Bliley Act, the Health Insurance Portability and Accountability Act of 1996, the HITECH Act of 2009, the Truth in Lending Act, the Fair Credit Billing Act, the Federal Trade Commission Act and FDIC rules and regulations. We must also comply with applicable regulations relating to health and other personal information that we process as part of our services. Additionally, our client contracts may specify other regulatory requirements we must meet in connection with the services we provide. We provide our employees with training for applicable laws and regulations.

We benefit from tax relief provided by laws and regulations in India and the Philippines. Regulation of our business by the Indian government affects us in several ways. For instance, until April 2011, we benefited from certain tax incentives promulgated by the Indian government, including a holiday from Indian corporate income taxes for the operations of some of our Indian operations centers. During the last five years, we either established or acquired new centers that are eligible for tax benefits under the Special Economic Zones Act, 2005 (the Special Economic Zones Act). The Special Economic Zones Act introduced a 15-year tax holiday scheme for operations established in designated special economic zones (SEZs). Under the Special Economic Zones Act, qualifying operations are eligible for a deduction from taxable income equal to (i) 100% of their export profits derived for the first five years from the commencement of operations; (ii) 50% of such export profits for the next five years; and (iii) 50% of the export profits for a further five years, subject to satisfying certain capital investment requirements. The Special Economic Zones Act provides, among other restrictions, that this holiday is not available to operations formed by splitting up or reconstructing existing operations or transferring existing plant and equipment (beyond a prescribed limit) to new SEZ locations. We anticipate establishing additional operations centers in SEZs or other tax advantaged locations in the future. See Management's Discussion and Analysis of Financial Condition and Results of Operations Foreign Exchange and Income Taxes.

Other Information

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

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We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC) under the Securities Exchange Act of 1934, as amended (the Exchange

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

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

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We have a limited number of clients and provide services to a few industries. In 2013, approximately 58% of our total revenues came from top ten clients.

We have derived and believe that we will continue to derive a substantial portion of our total revenues from a limited number of large clients. In 2013, our ten largest clients accounted for approximately 58% of our total revenues. We expect that a significant portion of our total revenues will continue to be contributed by a limited number of large clients in the near future. The loss of or financial difficulties at any of our large clients could have a material adverse effect on our business, results of operations, financial condition and cash flows. Moreover, the loss of a major customer could also impact our reputation in the market, making it more difficult to attract and retain customers more generally.

On November 1, 2013, we received a notice of termination (the Termination Notice) from the Travelers Indemnity Company (Travelers) under a Professional Services Agreement, dated as of March 7, 2006, between us and Travelers (as amended from time to time, the Services Agreement). Travelers represented 9.7% of our total revenues for the year ended December 31, 2013. While this termination did not have a material impact on our calendar year 2013 revenues, we do estimate a reduction in 2014 revenues of between \$12 million and \$20 million due to certain services we currently provide to Travelers being transitioned away from us throughout 2014. In addition, we expect that we will reimburse Travelers for certain of their expenses incurred in connection with the termination, which will further reduce our revenues in 2014. We also expect that we will provide certain disentanglement services to Travelers at our expense for up to eighteen months from the date of the Termination Notice (the Transition Period), which will increase our expenses in 2014. We are still discussing the termination process with Travelers and, as a result, at this point cannot reasonably estimate the total amount of reimbursements we may make to Travelers or what internal costs we will incur as a result of the termination. If the disentanglement between us and Travelers is not completed in a manner that is satisfactory to both parties, it could further increase our expenses and revenue loss due to the termination, thereby negatively impacting our business, results of operations, financial condition and cash flows.

Our results of operations could be adversely affected by economic and political conditions and the effects of these conditions on our clients' businesses and levels of business activity.

Global economic and political conditions affect our clients' businesses and the markets they serve. The global economic downturn that began in 2008 had an adverse impact on the companies in the industries to which we provide services, including the banking, financial services and insurance industries. In 2013, approximately 50% of our total revenues was derived from clients in those industries, including 42% of our total revenues that were derived from clients in the insurance industry. Our business largely depends on continued demand for our services from clients and potential clients in these industries. Adverse developments in these industries or the other select industries to which we provide services could further unfavorably affect our business. In particular, we currently derive, and are likely to continue to derive, a significant portion of our revenues from clients located in the U.S. Any future decreases in the general level of economic activity, such as decreases in business and consumer spending, could result in a decrease in demand for our services, particularly our transformation services, thus reducing our revenues. Continued high unemployment rates in the U.S. could also adversely affect the demand for our services. Other developments in response to economic events, such as consolidations, restructurings or reorganizations, particularly involving our clients, could also cause the demand for our services to decline.

Any future disruptions in the commercial credit markets may impact liquidity in the global credit market as greatly, or even more, than in recent years, and we may not be able to predict the impact such worsening conditions will have on

our targeted industries in general, and our results of operations specifically. Future turbulence in global markets and economies may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our clients. Market disruptions may limit our ability to access financing or increase our cost of financing to meet liquidity needs, and affect the ability of our customers to use credit to

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purchase our services or to make timely payments to us, resulting in adverse effects on our financial condition and results of operations. Changes in global economic conditions could also shift demand to services for which we do not have competitive advantages, and this could negatively affect the amount of business that we are able to obtain.

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

We have based our strategy of future growth on certain assumptions regarding our industry and future developments in the market for outsourcing services. For example, we believe that there will continue to be changes in product and service requirements, and investments in the products offered by our clients will continue to increase. However, the trend to outsource business processes may not continue and could reverse. Offshore outsourcing is a politically sensitive topic in the U.S. 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 U.S. and elsewhere. In addition, there has been limited publicity about the negative experience of certain companies that use offshore outsourcing, particularly in India. Current or prospective clients may elect to perform such services themselves or may be discouraged from transferring these services to offshore providers to avoid any negative perception that may be associated with using an offshore provider. Any slowdown or reversal of existing industry trends would harm our ability to compete effectively with competitors that operate out of facilities located in the U.S. 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 U.S. For example, legislation has been proposed that would require offshore providers to identify where they are located and that would require notice to individuals whose personal information is disclosed to non-U.S. companies. In addition, bills have been proposed that would provide tax and other economic incentives for companies that create employment in the U.S. by reducing their offshore outsourcing. Other bills have proposed requiring call centers to disclose their geographic locations, requiring notice to individuals whose personal information is disclosed to non-U.S. affiliates or subcontractors, requiring disclosures of companies' foreign outsourcing practices or restricting U.S. private sector companies that have federal government contracts, federal grants or guaranteed loan programs from outsourcing their services to offshore service providers. Because most of our clients are located in the U.S., 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 other countries, such as the U.K., there has also been some negative publicity and concern expressed regarding the possible effect of job losses caused by outsourcing. Legislation enacted in the U.K. provides that if a company transfers or outsources its business or a part of its business to a transferee or a service provider, the employees who were employed in such business are entitled to become employed by the transferee or service provider on the same terms and conditions as they had been employed before the transfer. The dismissal of such employees as a result of such transfer of business is deemed unfair dismissal and entitles the employees to compensation. As a result, we may become liable for redundancy payments to the employees of our clients in the U.K. who outsource business to us. We are generally indemnified in our existing contracts with clients in the U.K. to the extent we incur losses or additional costs due to the application of this legislation to us, and we intend to obtain indemnification in future contracts with clients. However, if we are unable to obtain indemnification in future contracts with clients, we may be liable under any agreements we enter into in the future with U.K. clients. Similar legislation has also been enacted in certain other European jurisdictions.

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

Most of our client contracts may be terminated by our clients without cause and do not commit our clients to provide us with a specific volume of business. Any failure to meet a client's expectations could result in a cancellation or non-renewal of a contract or a decrease in business provided to us. We may not be able to replace

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any client that elects to terminate or not renew its contract with us, which would reduce our revenues. The loss of or financial difficulties at any of our large clients would have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

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

Our industry is 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. Our turnover rate for employees with EXL for more than 180 days was 25.8% for the year ended December 31, 2013. There is significant competition for professionals with skills necessary to perform the services we offer to our clients. Increased competition for these professionals could have an adverse effect on us. A significant increase in the turnover rate among our employees, particularly among our higher skilled workforce, 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. High employee turnover increases training, recruitment and retention costs because we must maintain larger hiring, training and human resources departments and it also increases our operating costs due to having to reallocate certain business processes among our operations centers where we have access to the skilled workforce needed for our business.

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

We have a long selling cycle for our outsourcing 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 outsourcing 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, including testing our

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services for a limited period of time, and assessing the feasibility of integrating our systems and processes with theirs. Our clients then evaluate our services before deciding whether to use them. Therefore, our selling cycle, which generally ranges from six to eighteen months, is subject to many risks and delays over which we have little or no control, including our clients' decision to choose alternatives to our services (such as other providers or in-house offshore resources) and the timing of our clients' budget cycles and approval processes. In addition, we may not be able to successfully conclude a contract after the selling cycle is complete.

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

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

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

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

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

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

Most of our contracts use a pricing model that provides for hourly or annual billing rates. Industry pricing models are evolving, however, and we anticipate that clients may increasingly request transaction-based or other pricing models. If we are unable to obtain operating efficiencies or if we make inaccurate assumptions for contracts with transaction-based pricing, our profitability may be negatively affected. If we are unable to adapt our operations to evolving pricing protocols, our results of operations may be adversely affected or we may not be able to offer pricing that is attractive relative to our competitors.

In addition, the services we provide to our clients and the revenues and income from those services may decline or vary as the type and quantity of services we provide under those contracts changes over time, including as a result of a shift in the mix of products and services we provide. Furthermore, our clients, some of which have experienced

significant and adverse changes in their prospects, substantial price competition and pressures on their profitability, have in the past and may in the future demand price reductions, automate some or

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all of their processes or change their outsourcing strategy by moving more work in-house or to other providers, any of which could reduce our profitability. Any significant reduction in or the elimination of the use of the services we provide to any of our clients, or any requirement to lower our prices, would harm our business.

Our profitability will suffer if we are not able to appropriately price our services or manage our asset utilization levels.

Our profitability is largely a function of the efficiency with which we utilize our assets, in particular our people and our operations centers, and the pricing that we are able to obtain for our services. Our asset utilization levels are affected by a number of factors, including our ability to transition employees from completed projects to new assignments, attract, train and retain employees, forecast demand for our services and maintain an appropriate headcount in each of our locations, as well as our need to dedicate resources to employee training and development and other typically non-chargeable activities. The prices we are able to charge for our services are affected by a number of factors, including our clients' perceptions of our ability to add value through our services, substantial price competition, introduction of new services or products by us or our competitors, our ability to accurately estimate, attain and sustain revenues from client engagements, our ability to estimate resources for long-term pricing, margins and cash flows for long-term contracts and general economic and political conditions. Therefore, if we are unable to appropriately price our services or manage our asset utilization levels, there could be a material adverse effect on our business, results of operations and financial condition.

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

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

In addition, a significant portion of our transformation services consist of specific projects with contract terms generally not exceeding one year and may not produce ongoing or recurring business for us once the project is completed. These contracts also usually contain provisions permitting termination of the contract after a short notice period. The short-term nature and specificity of these projects could lead to material fluctuations and uncertainties in the revenues generated from providing transformation 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 entering into definitive agreements with new clients. The timing of revenue recognition under new client agreements also varies depending on when we complete the implementation phase with new clients. The completion of implementation varies significantly based upon the complexity of the processes being implemented.

Our period-to-period results have in the past and may also in the future fluctuate due to other factors, including client losses, delays or failure by our clients to provide anticipated business, variations in employee utilization rates resulting from changes in our clients' operations, delays or difficulties in expanding our operations centers and infrastructure (including hiring new employees or constructing new operations centers), changes to our pricing structure or that of

our competitors, currency fluctuations, seasonal changes in the operations of our clients and other events identified in this Annual Report on Form 10-K. Our revenues are also affected by changes in pricing under our contracts at the time of renewal or by pricing under new contracts. In

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addition, most of our contracts do not commit our clients to provide us with a specific volume of business. Further, as we increase our capabilities utilizing technology service platforms and other software-based services, we expect that revenues from such services will continue to grow in p