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

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**FORM 10-Q**

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(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015**

**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**

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**EXLSERVICE HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

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**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

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

**280 PARK AVENUE, 38<sup>TH</sup> FLOOR  
NEW YORK, NEW YORK**  
(Address of principal executive offices)

**10017**  
(Zip code)

**(212) 277-7100**  
(Registrant's telephone number, including area code)

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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 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 July 27, 2015, there were 33,154,662 shares of the registrant's common stock outstanding (including 159,090 restricted stock), par value \$0.001 per share.

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## PART 1. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## EXLSERVICE HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS  
(In thousands, except share and per share amounts)

	June 30, 2015 (Unaudited)	December 31, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 94,651	\$ 176,499
Short-term investments	77,880	11,577
Restricted cash	2,466	1,395
Accounts receivable, net	94,216	80,244
Prepaid expenses	7,738	5,783
Deferred tax assets, net	4,649	4,455
Advance income tax, net	6,321	9,905
Other current assets	13,687	12,533
Total current assets	<u>301,608</u>	<u>302,391</u>
Fixed assets, net	48,152	45,369
Restricted cash	3,342	3,258
Deferred tax assets, net	8,039	11,985
Intangible assets, net	58,960	46,979
Goodwill	170,129	139,599
Other assets	23,488	23,975
Total assets	<u>\$ 613,718</u>	<u>\$ 573,556</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 5,832	\$ 4,663
Short-term borrowings	10,000	—
Deferred revenue	11,994	7,690
Accrued employee cost	28,834	37,606
Accrued expenses and other current liabilities	37,571	40,206
Current portion of capital lease obligations	661	803
Total current liabilities	<u>94,892</u>	<u>90,968</u>
Long term borrowings	60,000	50,000
Capital lease obligations, less current portion	323	560
Non-current liabilities	14,041	12,870
Total liabilities	<u>169,256</u>	<u>154,398</u>
Commitments and contingencies (See Note 16)		
Preferred stock, \$0.001 par value; 15,000,000 shares authorized, none issued	—	—
Stockholders' equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized, 34,658,876 shares issued and 33,213,549 shares outstanding as of June 30, 2015 and 34,203,352 shares issued and 32,905,467 shares outstanding as of December 31, 2014	35	34
Additional paid-in-capital	243,348	233,173
Retained earnings	291,065	269,424
Accumulated other comprehensive loss	(56,917)	(55,509)
Total stockholders' equity including shares held in treasury	<u>477,531</u>	<u>447,122</u>
Less: 1,445,327 shares as of June 30, 2015 and 1,297,885 shares as of December 31, 2014, held in treasury, at cost	(33,069)	(27,964)
Total stockholders' equity	<u>444,462</u>	<u>419,158</u>
Total liabilities and stockholders' equity	<u>\$ 613,718</u>	<u>\$ 573,556</u>

See accompanying notes

## EXLSERVICE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

(In thousands, except share and per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenues, net	\$ 155,621	\$ 119,738	\$ 299,131	\$ 241,535
Cost of revenues (exclusive of depreciation and amortization)	100,478	81,259	193,603	156,181
Gross profit	55,143	38,479	105,528	85,354
Operating expenses:				
General and administrative expenses	19,990	16,240	38,611	31,040
Selling and marketing expenses	11,844	9,463	23,087	19,695
Depreciation and amortization	8,061	6,679	15,114	13,035
Total operating expenses	39,895	32,382	76,812	63,770
Income from operations	15,248	6,097	28,716	21,584
Other income/(expense):				
Foreign exchange gain / (loss)	1,022	(137)	2,156	(970)
Interest and other income, net	1,335	858	2,513	1,817
Income before income taxes	17,605	6,818	33,385	22,431
Income tax expense / (benefit)	5,531	(944)	11,744	3,521
Net income	\$ 12,074	\$ 7,762	\$ 21,641	\$ 18,910
Earnings per share:				
Basic	\$ 0.36	\$ 0.24	\$ 0.65	\$ 0.58
Diluted	\$ 0.35	\$ 0.23	\$ 0.63	\$ 0.56
Weighted-average number of shares used in computing earnings per share:				
Basic	33,417,079	32,812,155	33,327,169	32,668,620
Diluted	34,207,973	33,673,669	34,130,472	33,551,904

*See accompanying notes.*

## EXLSERVICE HOLDINGS, INC.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**  
**(In thousands)**

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Net income	\$ 12,074	\$ 7,762	\$ 21,641	\$ 18,910
Other comprehensive (loss)/income:				
Unrealized (loss) / gain on effective cash flow hedges, net of taxes (\$358), \$578, \$95 and \$2,186, respectively	(1,116)	1,964	690	7,366
Foreign currency translation adjustment	(3,136)	43	(2,834)	4,871
Retirement benefits, net of taxes \$4, \$2, \$10 and \$0 respectively	178	(19)	329	(59)
Reclassification adjustments				
Realized loss on cash flow hedges, net of taxes \$92, \$485, \$218 and \$980(1), respectively	132	1,720	315	3,478
Retirement benefits, net of taxes \$13, \$7, \$16 and \$15, respectively(2)	40	26	92	55
Total other comprehensive (loss) / income	<u>(3,902)</u>	<u>3,734</u>	<u>(1,408)</u>	<u>15,711</u>
Total comprehensive Income	<u>\$ 8,172</u>	<u>\$ 11,496</u>	<u>\$ 20,233</u>	<u>\$ 34,621</u>

(1) These are reclassified to net income and are included in the foreign exchange loss in the unaudited consolidated statements of income. See Note 7 to the unaudited consolidated financial statements.

(2) These are reclassified to net income and are included in the computation of net periodic pension costs in the unaudited consolidated statements of income. See Note 11 to the unaudited consolidated financial statements.

See accompanying notes.

## EXLSERVICE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW  
(Unaudited)  
(In thousands)

	<u>Six months ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Net income	\$ 21,641	\$ 18,910
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,114	13,035
Stock-based compensation expense	7,809	6,142
Unrealized foreign exchange (gain) / loss	(1,386)	2,206
Unrealized gain on short term investments	(760)	—
Deferred income taxes	3,272	2,709
Others, net	(209)	(8)
Change in operating assets and liabilities:		
Restricted cash	(1,197)	(291)
Accounts receivable	(10,013)	2,472
Prepaid expenses and other current assets	(1,143)	(2,008)
Accounts payable	(464)	419
Deferred revenue	2,516	1,035
Accrued employee cost	(8,175)	(4,940)
Accrued expenses and other liabilities	(3,058)	(3,959)
Advance income tax, net	3,625	(6,263)
Other assets	(405)	(1,706)
Net cash provided by operating activities	<u>27,167</u>	<u>27,753</u>
Cash flows from investing activities:		
Purchase of fixed assets	(14,380)	(16,637)
Business acquisition (net of cash acquired)	(44,270)	—
Purchase of short-term investments	(71,863)	(1,408)
Proceeds from redemption of short-term investments	6,001	—
Net cash used for investing activities	<u>(124,512)</u>	<u>(18,045)</u>
Cash flows from financing activities:		
Principal payments on capital lease obligations	(358)	(564)
Proceeds from borrowings	30,000	—
Repayments of borrowings	(10,000)	—
Payment of debt issuance costs	(74)	—
Acquisition of treasury stock	(5,105)	(459)
Proceeds from exercise of stock options	2,366	2,813
Net cash provided by financing activities	<u>16,829</u>	<u>1,790</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(1,332)</u>	<u>1,374</u>
Net (decrease) / increase in cash and cash equivalents	(81,848)	12,872
Cash and cash equivalents, beginning of period	176,499	148,065
Cash and cash equivalents, end of period	<u>\$ 94,651</u>	<u>\$ 160,937</u>

See accompanying notes.

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

**1. Organization and Basis of Presentation**

***Organization***

ExlService Holdings, Inc. (“ExlService Holdings”) is organized as a corporation under the laws of the state of Delaware. ExlService Holdings, together with its subsidiaries (collectively, the “Company”), is a leading provider of business process solutions that integrate operations management with analytics and business transformation to deliver actionable business insights and long-term business impact. The Company’s clients are located principally in the U.S. and the U.K.

***Basis of Presentation***

The unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by US GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

The unaudited interim consolidated financial statements reflect all adjustments (of a normal and recurring nature) that management considers necessary for a fair presentation of such statements for the interim periods presented. The unaudited consolidated statements of income for the interim periods presented are not necessarily indicative of the results for the full year or for any subsequent period.

**2. Summary of Significant Accounting Policies**

***Principles of Consolidation***

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

***Use of Estimates***

The preparation of the unaudited consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited consolidated financial statements and the unaudited consolidated statements of income during the reporting period. Although these estimates are based on management’s best assessment of the current business environment, actual results may be different from those estimates. The significant estimates and assumptions that affect the financial statements include, but are not limited to, allowance for doubtful receivables, service tax receivables, assets and obligations related to employee benefit plans, deferred tax valuation allowances, income-tax uncertainties and other contingencies, valuation of derivative financial instruments, stock-based compensation expense, depreciation and amortization periods, purchase price allocation, recoverability of long-term assets including goodwill and intangibles, and estimates to complete the fixed price contracts.

In accordance with its policy, the Company reviews the estimated useful lives of its fixed assets on an ongoing basis. This review indicated that the actual lives of certain fixed assets were longer than the estimated useful lives used for depreciation purposes in the Company’s financial statements. As a result, effective January 1, 2015, the Company changed its estimates of the useful lives of its certain fixed assets to better reflect the estimated periods during which these assets will remain in service. The effect of change in estimated useful life of assets reduced depreciation expense by \$468 and \$935, increased net income by \$281 and \$561 and increased basic and diluted earnings per share by \$0.01 and \$0.02, respectively during the three months and six months ended June 30, 2015.

***Revenue Recognition***

As part of reimbursing the Travelers Indemnity Company (“Travelers”) for certain of their transition related expenses (the “disentanglement costs”), the Company recognized \$5,718 and \$8,189 of such reimbursements as a reduction of our revenues during the three months and six months ended June 30, 2014 respectively, in accordance with Accounting Standards Codification topic 605-50-45, “Revenue Recognition.” The Company did not incur any reimbursements of disentanglement costs during the three months and six months ended June 30, 2015 and also does not anticipate incurring any additional reimbursements of disentanglement costs related to Travelers going forward.

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)**  
**June 30, 2015**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

Revenue from analytical services including modeling, targeting and designing of campaigns and mail marketing including email marketing and other digital solutions is typically recognized on delivery of such campaigns. In respect of arrangements involving sub-contracting of part or whole of the assigned work, the Company evaluates revenue to be recognized under ASC 605-45 “Revenue recognition – Principal agent considerations”.

**Investments**

The Company’s investments consist primarily of time deposits and mutual funds and are in accordance with the Company’s risk management policies. Time deposits with financial institutions are valued at cost and approximate fair value. Interest earned on such investments is included in interest and other income. Investments with original maturities greater than ninety days but less than twelve months are classified as short-term investments. Investments with maturities greater than twelve months from the balance sheet date are classified as long-term investments.

The mutual fund investments are in debt and money market funds which invest in instruments of various maturities in India. The Company accounts for these investments in accordance with the fair value option under ASC topic 825-10 (“ASC No. 825-10”) and change in fair value is included in interest and other income. The fair value represents original cost (on the acquisition date) and the net asset value (“NAV”) as quoted, at each reporting period. Gain or loss on the disposal of these investments is calculated using the weighted average cost of the investments sold or disposed and is included in interest and other income.

**Accrued expenses and other current liabilities**

Accrued expenses and other current liabilities consist of the following:

	June 30, 2015	December 31, 2014
Accrued expenses	\$27,095	\$ 24,451
Derivative instruments	1,281	2,385
Client liability account	2,983	9,241
Other current liabilities	6,212	4,129
Accrued expenses and other current liabilities	<u>\$37,571</u>	<u>\$ 40,206</u>

**Non-current liabilities**

Non-current liabilities consist of the following:

	June 30, 2015	December 31, 2014
Derivative instruments	\$ 784	\$ 576
Unrecognized tax benefits	4,241	2,878
Deferred rent	6,268	5,977
Retirement benefits	1,531	1,544
Other non-current liabilities	1,217	1,895
Non-current liabilities	<u>\$14,041</u>	<u>\$ 12,870</u>



**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)**  
**June 30, 2015**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

**Interest and other income**

Other income (expense), net consists of the following:

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Interest and dividend income*	\$ 1,510	\$ 912	\$ 2,912	\$ 1,789
Interest expense	(360)	(75)	(643)	(188)
Others, net	185	21	244	216
Other income, net	<u>\$ 1,335</u>	<u>\$ 858</u>	<u>\$ 2,513</u>	<u>\$ 1,817</u>

\* Includes unrealized gain of \$718 and \$760 and realized gain of \$15 and \$0, respectively for the three months and six months ending June 30, 2015 on investments carried under fair value option. There were no such unrealized / realized gain/(loss) for the three months and six months ended June 30, 2014.

**Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). Earlier the new standard was effective for reporting periods beginning after December 15, 2016. However, in April 2015, FASB deferred the effective date of the new standard. With this deferral, the new standard is effective for reporting periods beginning after December 15, 2017 and early adoption is not permitted. The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions of the Company. ASU 2014-09 is effective for the Company in the first quarter of fiscal 2018 using either one of two methods: (i) retrospectively to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. The Company is currently evaluating the impact of adoption and the implementation approach to be used.

In April 2015, FASB issued ASU No. 2015-05, “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement” (“ASU 2015-05”). The amendments add guidance to Subtopic 350-40, Intangibles – Goodwill and Other – Internal-Use Software, which will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The amendments will be effective for fiscal years beginning after December 15, 2015. The Company is currently evaluating the method of adoption and impact this standard will have on its consolidated financial statements and related disclosures.

In April 2015, FASB issued ASU No. 2015-03, “Interest—Imputation of Interest” (“ASU 2015-03”), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance of debt issuance costs are not affected by the amendments in that update. The standard will be effective for the Company beginning in the first quarter of fiscal year 2016 and requires the Company to apply the new guidance on a retrospective basis on adoption. The adoption of this guidance is not expected to have any impact on the Company’s consolidated financial statements.

In May 2015, FASB issued ASU No. 2015-08, “Business Combinations (Topic 805): Pushdown Accounting - Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115” (“ASU 2015-08”). The amendments in ASU 2015-08 amend various SEC paragraphs included in FASB’s Accounting Standards Codification to reflect the issuance of Staff Accounting Bulletin No. 115 (“SAB 115”). SAB 115 rescinds portions of the interpretive guidance included in the SEC’s Staff Accounting Bulletins series and brings existing guidance into conformity with ASU No. 2014-17, “Business Combinations (Topic 805): Pushdown Accounting,” which provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The adoption of this guidance does not have a material impact on the Company’s consolidated financial statements.

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)**  
**June 30, 2015**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

**3. Earnings Per Share**

Basic earnings per share is computed by dividing net income to common stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share is computed using the weighted average number of common shares plus the potentially dilutive effect of common stock equivalents issued and outstanding at the reporting date, using the treasury stock method. Stock options, restricted stock and restricted stock units that are anti-dilutive are excluded from the computation of weighted average shares outstanding.

The following table sets forth the computation of basic and diluted earnings per share:

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b>Numerators:</b>				
Net income	\$ 12,074	\$ 7,762	\$ 21,641	\$ 18,910
<b>Denominators:</b>				
Basic weighted average common shares outstanding	33,417,079	32,812,155	33,327,169	32,668,620
Dilutive effect of share based awards	790,894	861,514	803,303	883,284
Diluted weighted average common shares outstanding	<u>34,207,973</u>	<u>33,673,669</u>	<u>34,130,472</u>	<u>33,551,904</u>
<b>Earnings per share:</b>				
Basic	\$ 0.36	\$ 0.24	\$ 0.65	\$ 0.58
Diluted	\$ 0.35	\$ 0.23	\$ 0.63	\$ 0.56
Weighted average common shares considered anti-dilutive in computing diluted earnings per share	62,084	179,450	116,922	192,669

**4. Segment Information**

The Company's business is divided into two reporting segments: Operations Management (previously called Outsourcing Services) and Analytics and Business Transformation (previously called Transformation Services). The Company changed its reporting segment nomenclature in 2014 in order to more accurately reflect the changing nature of its engagements with the clients. For comparability with the prior periods, the business composition of each segment remains unchanged.

The Company provides various types of business process solutions utilizing operations management, analytics and technology. These services are provided in an integrated manner to clients in various industries. The chief operating decision maker ("CODM") generally reviews financial information at the consolidated statement of income level disaggregated by our two segments, but does not review any information except for revenues and cost of revenues of these individual segments. Therefore, the Company does not allocate or evaluate operating expenses, interest expense or income, capital expenditures, and income taxes to its reporting segments. Consequently, it is not practical to show assets, capital expenditures, depreciation or amortization by segment. The recent acquisition of RPM Direct, LLC and RPM Data Solutions, LLC (collectively, "RPM") by the Company's subsidiary ExlService.com, LLC ("ExlService.com") is classified within the Analytics and Business Transformation segment.

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)**  
**June 30, 2015**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

Revenues and cost of revenues for each of the three months ended June 30, 2015 and 2014 for the Company’s Operations Management and Analytics and Business Transformation segments, respectively, are as follows:

	Three months ended June 30, 2015			Three months ended June 30, 2014		
	Operations Management	Analytics and Business Transformation	Total	Operations Management	Analytics and Business Transformation	Total
Revenues, net	\$ 112,606	\$ 43,015	\$ 155,621	\$ 94,314	\$ 25,424	\$ 119,738
Cost of revenues (exclusive of depreciation and amortization)	71,535	28,943	100,478	62,494	18,765	81,259
Gross profit	<u>\$ 41,071</u>	<u>\$ 14,072</u>	<u>\$ 55,143</u>	<u>\$ 31,820</u>	<u>\$ 6,659</u>	<u>\$ 38,479</u>
Operating expenses			39,895			32,382
Other income			2,357			721
Income tax expense / (benefit)			5,531			(944)
Net income			<u>\$ 12,074</u>			<u>\$ 7,762</u>

Revenues and cost of revenues for each of the six months ended June 30, 2015 and 2014 for the Company’s Operations Management and Analytics and Business Transformation segments, respectively, are as follows:

	Six months ended June 30, 2015			Six months ended June 30, 2014		
	Operations Management	Analytics and Business Transformation	Total	Operations Management	Analytics and Business Transformation	Total
Revenues, net	\$ 223,267	\$ 75,864	\$ 299,131	\$ 194,405	\$ 47,130	\$ 241,535
Cost of revenues (exclusive of depreciation and amortization)	142,001	51,602	193,603	121,393	34,788	156,181
Gross profit	<u>\$ 81,266</u>	<u>\$ 24,262</u>	<u>\$ 105,528</u>	<u>\$ 73,012</u>	<u>\$ 12,342</u>	<u>\$ 85,354</u>
Operating expenses			76,812			63,770
Other income			4,669			847
Income tax expense			11,744			3,521
Net income			<u>\$ 21,641</u>			<u>\$ 18,910</u>

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

**RPM Direct LLC and RPM Data Solutions, LLC**

On March 20, 2015 ExlService.com completed its acquisition of RPM Direct LLC and RPM Data Solutions, LLC (each a “Target Company” and together the “Target Companies” or “RPM”), pursuant to a Securities Purchase Agreement dated February 23, 2015 (the “Purchase Agreement”). Under the terms of the Purchase Agreement ExlService.com acquired all of the issued and outstanding limited liability company membership interests of the Target Companies (the “Securities”) from the security holders of each of the Target Companies.

The initial purchase consideration consisted of \$46,925 in cash including working capital adjustments of \$75, contingent cash consideration of up to \$23,000, as described below, and 122,131 restricted shares of common stock of the Company. There are no adjustments to the purchase price related to the financial performance of the Target Companies for 2014.

The purchase agreement allows sellers the ability to earn up to an additional \$23,000 (the “earn-out”) based on the achievement of certain performance goals by the Target Companies during the 2015 and 2016 calendar years. The earn-out has an estimated fair value of \$2,844. As noted above, the Company issued 122,131 restricted shares of common stock with an aggregate fair value of \$4,150 to certain key members of the Target Companies, each of whom have accepted employment positions with the Company upon consummation of the combination. The Company also granted 113,302 restricted stock units with an aggregate fair value of \$3,850 to certain employees of Target Companies, who have also accepted employment with the Company. The fair value of these grants will be recognized as compensation expense over the vesting period.

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RPM, now as a subsidiary of the Company, specializes in analyzing large consumer data sets to segment populations, predict response rates, forecast customer lifetime value and design targeted, multi-channel marketing campaigns. RPM has focused on the insurance industry, including P&C, life and health, since its inception in 2001. RPM maintains its own database and supports data on over 250 million consumers and 120 million U.S. households. The quantity and combination of data attributes managed by RPM drives optimal, data-driven decision-making and enables it to build models that analyze prospects individually. RPM employs proprietary predictive analytics and domain-specific pattern recognition algorithms to deliver results through a flexible, on-demand service model. Accordingly, the Company paid a premium for the acquisition which is being reflected in the goodwill recognized from the purchase price allocation of the total consideration paid by the Company.

The Company made a preliminary allocation of the purchase price to the net tangible and intangible assets based on their fair values as mentioned below:

	<u>Amount</u> <u>(In thousands)</u>
Net tangible assets	\$ 2,133
Identifiable intangible assets:	
Customer Relationship	13,260
Trade Names	1,520
Developed Technology	1,400
Non-Compete Agreements	680
Goodwill	30,776
Total purchase price*	<u>\$ 49,769</u>

\* Includes amount of \$4,125 deposited in escrow accounts in connection with the acquisition.

The customer relationships from the RPM acquisition are being amortized over the weighted average useful life of 5.7 years. Similarly, trade-names are being amortized over a useful life of 3 years and developed technology and non-compete agreements are being amortized over a useful life of 5 years each.

Under ASC topic 805, "Business Combinations," the preliminary allocation of the purchase price to the tangible and intangible assets and liabilities acquired may change up to a period of one year from the date of the acquisition. The Company's purchase accounting as of June 30, 2015 was incomplete and the Company expects to complete its valuation of the tangible assets, intangible assets and liabilities assumed as of the acquisition date during the third quarter. Accordingly, the Company may adjust the amounts recorded as of June 30, 2015 to reflect the final valuations of the assets acquired or liabilities assumed.

During the six months ended June 30, 2015 the Company recognized \$303 of acquisition related costs. Such amounts are included in general and administrative expenses in the consolidated statements of income. The Company's results of operations for the three and six months ended June 30, 2015 includes revenues of \$10,319 and \$11,511, respectively for RPM since March 20, 2015, the date on which the acquisition was consummated. It is not practicable to disclose the net earnings since management does not allocate or evaluate operating expenses and income taxes to its domestic entities.

The amount of goodwill recognized from the RPM acquisition is deductible for tax purposes.

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**Goodwill**

The following table sets forth details of the Company's goodwill balance as of June 30, 2015:

	Operations Management	Analytics and Business Transformation	Total
Balance at January 1, 2014	\$ 90,622	\$ 16,785	\$107,407
Goodwill arising from Blue Slate acquisition	—	4,554	4,554
Goodwill arising from Overland acquisition	28,667	—	28,667
Currency translation adjustments	(529)	—	(529)
Allocation on sale of a business unit (1)	(500)	—	(500)
Balance at December 31, 2014	\$ 118,260	\$ 21,339	\$139,599
Goodwill arising from RPM acquisition	—	30,776	30,776
Currency translation adjustments	(246)	—	(246)
Balance at June 30, 2015	<u>\$ 118,014</u>	<u>\$ 52,115</u>	<u>\$170,129</u>

(1) Relates to the sale of a business unit (acquired with the Business Process Outsourcing Inc. acquisition) during the year ended December 31, 2014. The net loss recognized from the sale of this business unit was \$149 and was included under "other income/ (expense)" in the consolidated statements of income included in the company's annual report on Form 10-K for the year ended December 31, 2014.

**Intangible Assets**

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

	As of June 30, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 64,850	\$ (20,272)	\$ 44,578
Leasehold benefits	2,899	(2,089)	810
Developed technology	12,214	(3,354)	8,860
Non-compete agreements	2,045	(1,371)	674
Trade names and trademarks	6,510	(2,472)	4,038
	<u>\$ 88,518</u>	<u>\$ (29,558)</u>	<u>\$ 58,960</u>

  

	As of December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 51,598	\$ (16,836)	\$ 34,762
Leasehold benefits	2,927	(2,004)	923
Developed technology	10,814	(2,402)	8,412
Non-compete agreements	1,365	(1,323)	42
Trade names and trademarks	4,990	(2,150)	2,840
	<u>\$ 71,694</u>	<u>\$ (24,715)</u>	<u>\$ 46,979</u>

Amortization expense for the three months ended June 30, 2015 and 2014 was \$2,808 and \$1,489, respectively. Amortization expense for the six months ended June 30, 2015 and 2014 was \$4,867 and \$3,025, respectively. The weighted average life of intangible assets was 8.8 years for customer relationships, 8.0 years for leasehold benefits, 6.5 years for developed technology, 4.5 years for non-compete agreements and 5.9 years for trade names and trademarks excluding indefinite life trade names and trademarks. The Company had \$900 of indefinite life trade names and trademarks as of June 30, 2015 and December 31, 2014.

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Estimated amortization of intangible assets during the year ending June 30,	
2016	\$11,159
2017	\$11,152
2018	\$10,832
2019	\$10,404
2020	\$ 6,288
2021 and thereafter	\$ 8,225

**6. Fair Value Measurements**

**Assets and Liabilities Measured at Fair Value**

The following table sets forth the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2015 and December 31, 2014. The table excludes accounts receivable, accounts payable and accrued expenses for which fair values approximate their carrying amounts.

As of June 30, 2015	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Money market and mutual funds*	\$107,260	\$ —	\$ —	\$107,260
Derivative financial instruments	—	4,974	—	4,974
Total	<u>\$107,260</u>	<u>\$4,974</u>	<u>\$ —</u>	<u>\$112,234</u>
<b>Liabilities</b>				
Derivative financial instruments	\$ —	\$2,065	\$ —	\$ 2,065
Fair value of earn-out consideration	—	—	2,844	2,844
Total	<u>\$ —</u>	<u>\$2,065</u>	<u>\$2,844</u>	<u>\$ 4,909</u>
As of December 31, 2014	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Money market and mutual funds	\$127,347	\$ —	\$ —	\$127,347
Derivative financial instruments	—	4,579	—	4,579
Total	<u>\$127,347</u>	<u>\$4,579</u>	<u>\$ —</u>	<u>\$131,926</u>
<b>Liabilities</b>				
Derivative financial instruments	\$ —	\$2,961	\$ —	\$ 2,961
Total	<u>\$ —</u>	<u>\$2,961</u>	<u>\$ —</u>	<u>\$ 2,961</u>

\* Includes investments carried on fair value option under ASC 825 of \$66,226, and are included under "short-term investments" in the consolidated balance sheet as of June 30, 2015.

*Derivative Financial Instruments:* The Company's derivative financial instruments consist of foreign currency forward exchange contracts. Fair values for derivative financial instruments are based on independent sources including highly rated financial institutions and are classified as Level 2. See Note 7 for further details on Derivatives and Hedge Accounting.

**7. Derivatives and Hedge Accounting**

The Company uses derivative instruments and hedging transactions to mitigate exposure to foreign currency fluctuation risks associated with forecasted transactions denominated in certain foreign currencies and to minimize earnings and cash flow volatility associated with changes in foreign currency exchange rates. The Company's derivative financial instruments are largely forward foreign exchange contracts that are designated effective and that qualify as cash flow hedges under ASC topic

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815, “*Derivatives and hedging*” (ASC No. 815). The Company also uses derivatives consisting of foreign currency exchange contracts not designated as hedging instruments under ASC No. 815 to hedge intercompany balances and other monetary assets or liabilities denominated in currencies other than the Company’s functional currency (“fair value hedges”). The Company’s primary exchange rate exposure is with the Indian Rupee, the U.K. pound sterling and the Philippine peso. The Company also has exposure in Czech Koruna and other local currencies in which it operates.

The Company had outstanding foreign exchange contracts totaling \$295,684 and GBP 14,883 as of June 30, 2015 and totaling \$276,018 and GBP 10,889 as of December 31, 2014. The Company estimates that approximately \$1,100 of net derivative gains included in accumulated other comprehensive loss (“AOCI”) could be reclassified into earnings within the next twelve months based on exchange rates prevailing as of June 30, 2015. As of June 30, 2015, the maximum outstanding term of derivative instruments that hedge forecasted transactions was forty-five months.

The Company evaluates the hedge effectiveness at the time a contract is entered into as well as on an ongoing basis. If during this time a contract is deemed ineffective, the change in the fair value is recorded in the unaudited consolidated statements of income and is included in foreign exchange loss. For hedging positions that are discontinued because the forecasted transaction is not expected to occur by the end of the originally specified period, any related derivative amounts recorded in equity are reclassified to earnings. No significant amounts of gains or losses were reclassified from AOCI into earnings during the three and six months ended June 30, 2015 and 2014.

The following tables set forth the fair value of the foreign currency exchange contracts and their location on the unaudited consolidated financial statements:

***Derivatives designated as hedging instruments***

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
<b>Other current assets:</b>		
Foreign currency exchange contracts	\$ 2,372	\$ 1,243
<b>Other assets:</b>		
Foreign currency exchange contracts	\$ 2,478	\$ 3,193
<b>Accrued expenses and other current liabilities:</b>		
Foreign currency exchange contracts	\$ 1,272	\$ 2,385
<b>Other non current liabilities:</b>		
Foreign currency exchange contracts	\$ 784	\$ 576

***Derivatives not designated as hedging instruments:***

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
<b>Other current assets:</b>		
Foreign currency exchange contracts	\$ 124	\$ 143
<b>Accrued expenses and other current liabilities:</b>		
Foreign currency exchange contracts	\$ 9	\$ —

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The following tables set forth the effect of foreign currency exchange contracts on the unaudited consolidated statements of income for the three months ended June 30, 2015 and 2014:

<u>Derivatives in Cash Flow Hedging Relationships</u>	<u>Amount of Gain/(Loss) Recognized in AOCI on Derivative (Effective Portion)</u>		<u>Location of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)</u>	<u>Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)</u>		<u>Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)</u>	<u>Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)</u>	
	<u>2015</u>	<u>2014</u>		<u>2015</u>	<u>2014</u>		<u>2015</u>	<u>2014</u>
	Foreign exchange contracts	\$ (1,474)		\$ 2,542	Foreign exchange loss		\$ (224)	\$ (2,205)

<u>Derivatives not designated as Hedging Instruments</u>	<u>Location of Gain/(Loss) Recognized in Income on Derivatives</u>	<u>Amount of Gain/(Loss) Recognized in Income on Derivatives</u>	
		<u>2015</u>	<u>2014</u>
Foreign exchange contracts	Foreign exchange loss	\$ (1,297)	\$ 732

The following tables set forth the effect of foreign currency exchange contracts on the unaudited consolidated statements of income for the six months ended June 30, 2015 and 2014:

<u>Derivatives in Cash Flow Hedging Relationships</u>	<u>Amount of Gain/(Loss) Recognized in AOCI on Derivative (Effective Portion)</u>		<u>Location of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)</u>	<u>Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)</u>		<u>Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)</u>	<u>Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)</u>	
	<u>2015</u>	<u>2014</u>		<u>2015</u>	<u>2014</u>		<u>2015</u>	<u>2014</u>
	Foreign exchange contracts	\$ 785		\$ 9,552	Foreign exchange loss		\$ (533)	\$ (4,458)

<u>Derivatives not designated as Hedging Instruments</u>	<u>Location of Gain or (Loss) Recognized in Income on Derivatives</u>	<u>Amount of Gain/(Loss) Recognized in Income on Derivatives</u>	
		<u>2015</u>	<u>2014</u>
Foreign exchange contracts	Foreign exchange loss	\$ 799	\$ 3,451



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**8. Fixed Assets**

Fixed assets consist of the following:

	June 30, 2015	December 31, 2014
<b>Owned Assets:</b>		
Network equipment, computers and software	\$ 88,926	\$ 83,140
Buildings	1,250	1,262
Land	818	826
Leasehold improvements	26,256	26,416
Office furniture and equipment	12,487	12,218
Motor vehicles	607	542
Capital work in progress	5,685	3,029
	<u>136,029</u>	<u>127,433</u>
Less: Accumulated depreciation and amortization	(88,558)	(82,947)
	<u>\$ 47,471</u>	<u>\$ 44,486</u>
<b>Assets under capital leases:</b>		
Leasehold improvements	\$ 953	\$ 961
Office furniture and equipment	205	219
Motor vehicles	778	848
	<u>1,936</u>	<u>2,028</u>
Less: Accumulated depreciation and amortization	(1,255)	(1,145)
	<u>\$ 681</u>	<u>\$ 883</u>
Fixed assets, net	<u>\$ 48,152</u>	<u>\$ 45,369</u>

Depreciation and amortization expense excluding amortization of acquisition-related intangibles for the three months ended June 30, 2015 and 2014 was \$5,253 and \$5,190, respectively, and \$10,247 and \$10,010 for the six months ended June 30, 2015 and 2014, respectively.

Capital work in progress represents advances paid towards acquisition of fixed assets, the cost of fixed assets and internally generated software costs not yet ready to be placed in service.

**9. Capital Structure**

The Company has one class of common stock outstanding.

During the three months ended June 30, 2015, the Company acquired 707 shares of common stock from employees in connection with withholding tax payments related to the vesting of restricted stock for a total consideration of \$24. The weighted average purchase price of \$33.68 was the average of the high and low price of the Company's common stock on the Nasdaq Global Select Market on the trading day prior to the vesting date of the shares of restricted stock. The shares acquired are held as treasury stock.

During the three months ended June 30, 2014, the Company did not acquire any shares of common stock from employees in connection with withholding tax payments related to the vesting of restricted stock.

During the six months ended June 30, 2015 and June 30, 2014, the Company acquired 13,573 and 18,256 shares of common stock, respectively, from employees in connection with withholding tax payments related to the vesting of restricted stock for a total consideration of \$421 and \$459. The weighted average purchase price of \$30.99 and \$25.14, respectively, was the average of the high and low price of the Company's shares of common stock on the Nasdaq Global Select Market on the trading day prior to the vesting date of the shares of restricted stock.

On December 30, 2014, the Company's Board of Directors authorized up to an annual \$20 million common stock repurchase program (the "2014 Repurchase Program"), under which shares may be purchased by the Company from time to time from the open market and through private transactions during each of the fiscal years 2015 to 2017. During the three months ended June 30, 2015, the Company purchased 133,869 shares of its common stock for an aggregate purchase price of approximately \$4,685 including commissions, representing an average purchase price per share of \$35.00 under the 2014 Repurchase program.

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Repurchased shares have been recorded as treasury shares and will be held until the Company's board of directors designates that these shares be retired or used for other purposes.

**10. Borrowings**

On October 24, 2014, the Company entered into a credit agreement (the "Credit Agreement") with certain lenders and JPMorgan Chase Bank, N.A., as Administrative Agent. The Credit Agreement provides for a \$50,000 revolving credit facility (the "Credit Facility"), including a letter of credit sub-facility, for a period of five years. The Company had an option to increase the commitments under the Credit Facility by up to an additional \$50,000, subject to certain approvals and conditions as set forth in the Credit Agreement. On February 23, 2015, the Company exercised its option to increase credit commitments by another \$50,000 upon the same terms and conditions which were available in the Credit Agreement. The Credit Facility has a maturity date of October 24, 2019 and is voluntarily pre-payable from time to time without premium or penalty. The Credit Facility carried an effective interest rate of 1.56% per annum during the three and six months ended June 30, 2015.

Borrowings under the Credit Facility may be used for working capital, general corporate purposes and for acquisitions. The Company has an outstanding debt of \$70,000 (\$10,000, expected to be repaid within next twelve months included under "short-term borrowings" in the consolidated balance sheet) and \$50,000 under the Credit Facility as of June 30, 2015 and December 31, 2014, respectively. The Company borrowed an additional \$30,000 during the six months ended June 30, 2015 and repaid \$10,000 during the three months ended June 30, 2015. In connection with the financing, the Company incurred certain debt issuance costs, which are deferred and amortized as an adjustment to interest expense over the term of the Credit Facility. The unamortized debt issuance costs of \$417 and \$460 as of June 30, 2015 and December 31, 2014, respectively are included in the "other assets" in the consolidated balance sheet.

The obligations under the Credit Agreement are secured by all or substantially all of the assets of the Company and its material domestic subsidiaries. The Credit Agreement contains certain covenants including a restriction on indebtedness of the Company.

**11. Employee Benefit Plans**

The Company's Gratuity Plans in India and the Philippines provide a lump-sum payment to its vested employees upon retirement or upon termination of employment in an amount based on the respective employee's salary and years of employment with the Company. Liabilities with regard to the Gratuity Plans are determined by actuarial valuation using the projected unit credit method. Current service costs for the Gratuity Plans are accrued in the year to which they relate. Actuarial gains or losses or prior service costs, if any, resulting from amendments to the plans are recognized and amortized over the remaining period of service of the employees.

Net gratuity cost includes the following components:

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	2015	2014	2015	2014
Service cost	\$ 415	\$ 350	\$ 838	\$ 728
Interest cost	140	121	282	260
Expected return on plan assets	(97)	(44)	(197)	(87)
Actuarial loss	53	33	108	70
Net gratuity cost	<u>\$ 511</u>	<u>\$ 460</u>	<u>\$ 1,031</u>	<u>\$ 971</u>

The Gratuity Plans in India are partially funded and are managed and administered by Life Insurance Corporation of India and HDFC Standard Life Insurance Company. They calculate the annual contribution required to be made by the Company and manage the Gratuity Plans, including any required payouts. Fund managers manage these funds on a cash accumulation basis and declare interest retrospectively on March 31 of each year. The Company earned a return of approximately 9% on these Gratuity Plans for the year ended March 31, 2015.

<b>Change in Plan Assets</b>	
Plan assets at January 1, 2015	\$4,752
Actual return	215
Benefits Paid	(364)
Effect of exchange rate changes	(44)
Plan assets at June 30, 2015	<u>\$4,559</u>

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The Company maintains the Exl Service 401(k) Plan (the “401(k) Plan”) under Section 401(k) of the Internal Revenue Code of 1986 (the “Code”), covering all eligible employees, as defined. The Company may make discretionary contributions of up to a maximum of 3% of employee compensation within certain limits. The Company has made provisions for contributions to the 401(k) Plan amounting to \$383 and \$342 during the three month periods ended June 30, 2015 and 2014, respectively, and \$1,151 and \$845 during the six month periods ended June 30, 2015 and 2014, respectively.

During the three and six month periods ended June 30, 2015 and 2014, the Company contributed the following amounts to various defined contribution plans on behalf of its employees in India, the Philippines, Romania, Bulgaria and the Czech Republic:

Three months ended June 30, 2015	\$1,465
Three months ended June 30, 2014	\$1,463
Six months ended June 30, 2015	\$2,930
Six months ended June 30, 2014	\$2,861

## 12. Leases

The Company finances its use of certain leasehold improvements, furniture, fixtures, office equipment and motor vehicles under various lease arrangements provided by financial institutions. Future minimum lease payments under these capital leases as of June 30, 2015 are as follows:

Year ending June 30,	
2016	\$ 731
2017	246
2018	85
2019	27
Total minimum lease payments	1,089
Less: amount representing interest	105
Present value of minimum lease payments	984
Less: current portion	661
Long term capital lease obligation	<u>\$ 323</u>

The Company conducts its operations using facilities leased under non-cancelable operating lease agreements that expire at various dates. Future minimum lease payments under non-cancelable agreements expiring after June 30, 2015 are set forth below:

Year ending June 30,	
2016	\$ 9,620
2017	5,145
2018	3,452
2019	2,470
2020	1,298
2021 and thereafter	310
	<u>\$22,295</u>

The operating leases are subject to renewal periodically and have scheduled rent increases. The Company accounts for scheduled rent on such leases on a straight line basis over the non-cancelable lease period determined under ASC Topic 840 Lease Accounting (“ASC No. 840”). Rent expense under both cancelable and non-cancelable operating leases was \$5,110 and \$4,775 for the three months ended June 30, 2015 and 2014, respectively, and \$10,095 and \$9,256 for the six months ended June 30, 2015 and 2014, respectively. Deferred rent as of June 30, 2015 and December 31, 2014 was \$6,855 and \$6,544, respectively, and is included under “Accrued expenses and other current liabilities” and “Non-current liabilities” in the consolidated balance sheets.

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**13. Income Taxes**

The Company determines the tax provision for interim periods using an estimate of its annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter, the Company updates its estimate of annual effective tax rate, and if its estimated tax rate changes, the Company makes a cumulative adjustment.

The Company recorded income tax expense of \$5,531 and a benefit of \$944 for the three months ended June 30, 2015 and 2014, respectively. Income tax expense for the six months ended June 30, 2015 and 2014 was \$11,744 and \$3,521, respectively. The effective tax rate increased from a negative 13.8% during the three months ended June 30, 2014 to 31.4% during the three months ended June 30, 2015. The increase in effective tax rate is primarily due to reversal of an unrecognized tax benefit of \$2,173 and lower income in the U.S. due to reimbursement of disentanglement costs to Travelers during the three months ended June 30, 2014.

The effective rate of taxes increased from 15.7% during the six months ended June 30, 2014 to 35.2% during the six months ended June 30, 2015. The increase in effective tax rate was primarily due to immaterial errors related to prior years (individually as well as when aggregated) which was recorded during the six months ended June 30, 2015, and resulted in an increase in income tax expense of approximately \$1,800 (including \$1,285 related to the taxability of certain foreign income in those prior years for which the Company recorded a reserve for an unrecognized tax benefit). The effective tax rate further increased during the six months ended June 30, 2015 due to reversal of an unrecognized tax benefit of \$2,173 during the six months ended June 30, 2014, lower income in the U.S. due to reimbursement of disentanglement costs to Travelers and the expiration of a tax holiday in the Company's operating centers in the Philippines and India.

In accordance with ASC Topic 250, Accounting Changes and Error Corrections, the Company evaluated the effects of the errors on its financial statements for those prior years and the expected full year financial results for the year ending December 31, 2015 and concluded that the results of operations for these periods are not materially misstated. In reaching its conclusion, the Company considered qualitative and quantitative factors.

The following table summarizes the activity related to the gross unrecognized tax benefits from January 1, 2015 through June 30, 2015:

Balance as of January 1, 2015	\$2,761
Increases related to prior year tax positions	1,239
Decreases related to prior year tax positions	—
Increases related to current year tax positions	—
Decreases related to current year tax positions	—
Effect of exchange rate changes	(17)
Balance as of June 30, 2015	<u>\$3,983</u>

The unrecognized tax benefits as of June 30, 2015 of \$3,983, if recognized, would impact the effective tax rate.

During the three months ended June 30, 2015 and 2014, the Company has recognized interest of \$52 and \$55 respectively, which are included in the income tax expense in the unaudited consolidated statements of income. As of June 30, 2015 and December 31, 2014, the Company has accrued approximately \$1,258 and \$1,117, respectively in interest relating to unrecognized tax benefits.

The unrecognized tax benefits may increase or decrease in the next twelve months depending on the Company's tax position.

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**14. Stock-Based Compensation**

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

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	2015	2014	2015	2014
Cost of revenue	\$ 551	\$ 447	\$ 1,654	\$ 1,460
General and administrative expenses	1,386	787	2,869	2,301
Selling and marketing expenses	1,616	733	3,286	2,381
Total	<u>\$ 3,553</u>	<u>\$ 1,967</u>	<u>\$ 7,809</u>	<u>\$ 6,142</u>

On June 19, 2015, at the Company's 2015 Annual Meeting of Stockholders (the "Annual Meeting"), the stockholders of ExlService Holdings, Inc. (the "Company") approved the 2015 Amendment and Restatement of the 2006 Omnibus Award Plan (the "2015 Plan"), which amended and restated the 2006 Omnibus Award Plan to, among other things, increase the total number of shares reserved for grants of awards under the 2015 Plan by 1,700,000 shares. As of June 30, 2015, the Company had 2,409,450 shares available for grant under the 2015 Plan.

**Stock Options**

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

	<u>Number of Options</u>	<u>Weighted-Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u>	<u>Weighted-Average Remaining Contractual Life (Years)</u>
Outstanding at December 31, 2014	1,433,179	\$ 16.23	\$ 17,889	4.47
Granted	—	—	—	—
Exercised	(151,684)	15.60		
Forfeited/Expired	(6,058)	24.77		
Outstanding at June 30, 2015	<u>1,275,437</u>	<u>\$ 16.26</u>	<u>\$ 23,363</u>	<u>3.96</u>
Vested and exercisable at June 30, 2015	<u>1,193,574</u>	<u>\$ 15.68</u>	<u>\$ 22,561</u>	<u>3.78</u>

The unrecognized compensation cost for unvested options as of June 30, 2015 is \$417 which is expected to be expensed over a weighted average period of 0.6 years. The weighted-average fair value of options granted during the six months ended June 30, 2015 and 2014 was \$0 and \$9.77, respectively. The total grant date fair value of options vested during the three months ended June 30, 2015 and 2014 was \$44 and \$33 respectively. The total grant date fair value of options vested during the six months ended June 30, 2015 and 2014 was \$1,170 and \$1,224 respectively.

**Restricted Stock and Restricted Stock Units**

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

	<u>Restricted Stock</u>		<u>Restricted Stock Units*</u>	
	<u>Number</u>	<u>Weighted-Average Intrinsic Value</u>	<u>Number</u>	<u>Weighted-Average Intrinsic Value</u>
Outstanding at December 31, 2014	46,950	\$ 29.29	1,189,691	\$ 26.54
Granted	122,131	35.91	469,160	34.99
Vested	(4,695)	29.29	(311,161)	25.04
Forfeited	(5,296)	29.29	(61,781)	27.19
Outstanding at June 30, 2015	<u>159,090</u>	<u>\$ 34.37</u>	<u>1,285,909</u>	<u>\$ 29.95</u>

\* Excludes 140,016 and 128,000 vested restricted stock units as of June 30, 2015 and December 31, 2014, respectively for which the underlying common stock is yet to be issued.

As of June 30, 2015, unrecognized compensation cost of \$37,530 is expected to be expensed over a weighted average period of 2.94 years.

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)**  
**June 30, 2015**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

**Performance Based Stock Awards**

Performance restricted stock unit (the “PRSU’s”) activity under the Company’s stock plans is shown below:

	Revenue Based PRSU’s		Market Condition Based PRSU’s	
	Number	Weighted Avg Intrinsic Value	Number	Weighted Avg Intrinsic Value
Outstanding at Dec 31, 2014	47,725	\$ 25.63	47,725	\$ 33.60
Granted	62,788	34.75	162,787	39.94
Vested	—	—	—	—
Forfeited	(3,300)	28.53	(3,300)	40.29
Outstanding at June 30, 2015	<u>107,213</u>	<u>\$ 30.88</u>	<u>207,212</u>	<u>\$ 38.47</u>

As of June 30, 2015, unrecognized compensation cost of \$9,413 is expected to be expensed over a weighted average period of 2.34 years.

**15. Geographical Information**

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
<b>Revenues, net</b>				
United States	\$ 122,840	\$ 87,888	\$ 234,705	\$ 178,301
United Kingdom	27,453	24,734	53,288	48,155
Rest of World	5,328	7,116	11,138	15,079
	<u>\$ 155,621</u>	<u>\$ 119,738</u>	<u>\$ 299,131</u>	<u>\$ 241,535</u>

	June 30, 2015	December 31, 2014
<b>Fixed assets, net</b>		
India	\$26,028	\$ 24,186
United States	9,296	8,293
Philippines	12,319	12,391
Rest of World	509	499
	<u>\$48,152</u>	<u>\$ 45,369</u>

**16. Commitments and Contingencies**

**Fixed Asset Commitments**

As of June 30, 2015, the Company had committed to spend approximately \$2,709 under agreements to purchase fixed assets. This amount is net of capital advances paid in respect of these purchases.

**Other Commitments**

Certain units of the Company’s Indian subsidiaries were established as 100% export-oriented units or under the Software Technology Parks of India (“STPI”) scheme promulgated by the Government of India. These units are exempt from customs, central excise duties, and levies on imported and indigenous capital goods, stores, and spares. The Company has undertaken to pay custom duties, service taxes, levies, and liquidated damages payable, if any, in respect of imported and indigenous capital goods, stores and spares consumed duty free, in the event that certain terms and conditions are not fulfilled. The Company’s management believes, however, that these units have in the past satisfied and will continue to satisfy the required conditions.

The Company’s operations centers in the Philippines are registered with the Philippine Economic Zone Authority (“PEZA”). The registration provides the Company with certain fiscal incentives on the import of capital goods and requires Exl Philippines to meet certain performance and investment criteria. The Company’s management believes that these centers have in the past satisfied and will continue to satisfy the required criteria.

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)**  
**June 30, 2015**  
**(Unaudited)**  
**(In thousands, except share and per share amounts)**

***Contingencies***

U.S. and Indian transfer pricing regulations require that any international transaction involving associated enterprises be at an arm's length price. Accordingly, the Company determines the appropriate pricing for the international transactions among its associated enterprises on the basis of a detailed functional and economic analysis involving benchmarking against transactions among entities that are not under common control. The tax authorities have jurisdiction to review this arrangement and in the event that they determine that the transfer price applied was not appropriate, the Company may incur increased tax liability, including accrued interest and penalties. The Company is currently involved in disputes with the Indian tax authorities over the application of some of its transfer pricing policies for some of its subsidiaries. Further, the Company and its U.S. subsidiary, ExlService.com LLC are engaged in tax litigation with the income-tax authorities in India on the issue of permanent establishment.

The aggregate disputed amount demanded by Indian tax authorities from the Company related to its transfer pricing issues for various years ranging from tax years 2003 to 2011 and its permanent establishment issues ranging from tax years 2003 to 2011 as of June 30, 2015 and December 31, 2014 is \$19,847 and \$22,866, respectively, of which the Company has already made payments or provided bank guarantees to the extent of \$15,149 and \$14,666, respectively. Amounts paid as deposits in respect of such assessments aggregating to \$13,067 and \$12,564 as of June 30, 2015 and December 31, 2014, respectively, are included in "Other assets" and amounts deposited for bank guarantees aggregating to \$2,082 and \$2,102 as of June 30, 2015 and December 31, 2014, respectively, are included in "Restricted cash" in the non-current assets section of the Company's unaudited consolidated balance sheet as of June 30, 2015 and consolidated balance sheet as of December 31, 2014.

Based on advice from its Indian tax advisors, the facts underlying the Company's position and its experience with these types of assessments, the Company believes that the probability that it will ultimately be found liable for these assessments is remote and accordingly has not accrued any amount with respect to these matters in its consolidated financial statements. The Company does not expect any impact from these assessments on its future income tax expense. It is possible that the Company might receive similar orders or assessments from tax authorities for subsequent years. Accordingly even if these disputes are resolved, the Indian tax authorities may still serve additional orders or assessments.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion in connection with our unaudited consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. Some of the statements in the following discussion are forward looking statements. See "Forward Looking Statements." Dollar amounts within Item 2 are presented as actual, approximated, dollar amounts.*

### **Forward Looking Statements**

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

- our dependence on a limited number of clients in a limited number of industries;
- worldwide political, economic or business conditions;
- negative public reaction in the U.S. or elsewhere to offshore outsourcing;
- fluctuations in our earnings;
- our ability to attract and retain clients;
- our ability to successfully consummate or integrate strategic acquisitions;
- restrictions on immigration;
- our ability to hire and retain enough sufficiently trained employees to support our operations;
- our ability to grow our business or effectively manage growth and international operations;
- increasing competition in our industry;
- telecommunications or technology disruptions;
- our ability to withstand the loss of any significant customer
- regulatory, legislative and judicial developments, including changes to or the withdrawal of governmental fiscal incentives;
- technological innovation;
- political or economic instability in the geographies in which we operate;
- unauthorized disclosure of sensitive or confidential client and customer data; and
- adverse outcome of our disputes with the Indian tax authorities.

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

The forward looking statements made by us in this Quarterly Report on Form 10-Q, or elsewhere, speak only as of the date on which they were made. New risks and uncertainties come up from time to time, and it is impossible for us to predict those events or how they may affect us. We have no obligation to update any forward looking statements in this Quarterly Report on Form 10-Q after the date of this Quarterly Report on Form 10-Q, except as required by federal securities laws.



## **Executive Overview**

We are a leading provider of business process solutions to Fortune 500 and Global 2000 companies. Working as a strategic partner, we help our clients simplify and streamline business operations, manage compliance, create new channels for growth, and better adapt to change. Our solutions integrate operations management with analytics and business transformation to deliver actionable business insights and long-term business impact. We help shape our clients' operating environments through process and technology interventions and analytics driven insights into business performance with the goal of increasing quality and productivity while improving risk management and control.

We changed our reporting segments nomenclature in 2014 to Operations Management (previously called Outsourcing Services) and Analytics and Business Transformation (previously called Transformation Services) in order to more accurately reflect the changing nature of our engagements with our clients. For comparability with our prior periods, the business composition of each segment remains unchanged.

Our global delivery network, comprising highly trained industry and process specialists across the United States, Europe and Asia, is a key asset. We have operations centers in India, the U.S., the Philippines, Bulgaria, Romania and the Czech Republic. We also established a new delivery center in South Africa during the three months ended June 30, 2015.

Consistent with our growth strategy, on March 20, 2015 we acquired RPM, which, prior to the acquisition focused on the insurance industry, including property & casualty ("P&C"), life and health, and specialized in analyzing large consumer data sets to segment populations, predicting response rates, forecasting customer lifetime value and designing targeted, multi-channel marketing campaigns.

On July 1, 2014 and October 24, 2014, we acquired Blue Slate Solutions, LLC (the "Blue Slate acquisition") and Overland Holdings, Inc. (the "Overland acquisition"), respectively. The Blue Slate acquisition increases our Business Process Management and Technology Solutions capabilities that specialize in transforming operations through business process automation, use of innovative technologies, data integration and analytics. The Overland acquisition increases our underwriting support services capabilities for our clients in the P&C insurance industry.

## **Revenue**

As part of reimbursing the Travelers Indemnity Company ("Travelers") for certain of their transition related expenses (the "disentanglement costs"), we recognized \$5.7 million and \$8.2 million of such reimbursements as a reduction of our revenues during the three months and six months ended June 30, 2014, respectively. We did not incur any reimbursements of disentanglement costs during the three months and six months ended June 30, 2015 and we do not anticipate incurring any additional reimbursements of disentanglement costs related to Travelers going forward.

For the three months ended June 30, 2015, we had total revenues of \$155.6 million compared to total revenues of \$119.7 million (net of \$5.7 million of reimbursement of disentanglement costs to Travelers) for the three months ended June 30, 2014, an increase of \$35.9 million or 30.0%. Revenues from operations management services were \$112.6 million for the three months ended June 30, 2015 compared to \$94.3 million (net of \$5.7 million of reimbursement of disentanglement costs to Travelers) for the three months ended June 30, 2014. Revenues from analytics and business transformation services were \$43.0 million for the three months ended June 30, 2015 compared to \$25.4 million for the three months ended June 30, 2014.

For the six months ended June 30, 2015, we had total revenues of \$299.1 million compared to total revenues of \$241.5 million (net of \$8.2 million of reimbursement of disentanglement costs to Travelers) for the six months ended June 30, 2014, an increase of \$57.6 million or 23.8%. Revenues from operations management services were \$223.3 million for the six months ended June 30, 2015 compared to \$194.4 million (net of \$8.2 million of reimbursement of disentanglement costs to Travelers) for the six months ended June 30, 2014. Revenues from analytics and business transformation services were \$75.9 million for the six months ended June 30, 2015 compared to \$47.1 million for the six months ended June 30, 2014.

We serve clients mainly in the U.S. and the U.K., with these two regions generating 78.9% and 17.6%, respectively, of our total revenues for the three months ended June 30, 2015 and 73.4% and 20.7%, respectively, of our total revenues for the three months ended June 30, 2014. For the six months ended June 30, 2015, these two regions generated 78.5% and 17.8%, respectively, of our total revenues and 73.8% and 19.9%, respectively, of our total revenues for the six months ended June 30, 2014.

For the three months ended June 30, 2015 and 2014, total revenues from our top ten clients accounted for 43.9% and 52.5% of our total revenues, respectively. For the six months ended June 30, 2015 and 2014, total revenues from our top ten clients accounted for 44.4% and 53.4% of our total revenues, respectively. None of our clients accounted for more than 10% of our total revenues during the three and six months ended June, 30, 2015 and 2014. Although we are continually increasing and diversifying our customer base, we expect in the near future that a significant portion of our revenue will continue to be contributed by a limited number of large clients.

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We derived revenues from four and fifteen new clients for our services in the three and six months ended June 30, 2015, respectively, compared to eight and sixteen new clients in the three and six months ended June 30, 2014, respectively. Another three clients acquired during the three months ended June 30, 2015 did not generate revenues, but are expected to generate revenues beginning next quarter.

### **Our Business**

Our business is divided into two reporting segments: Operations Management and Analytics and Business Transformation. RPM's results are included in our Analytics and Business Transformation segment. We market our services to our existing and prospective clients through our sales and client management teams, which are aligned by key industry verticals and cross-industry domains such as finance and accounting. Our sales and client management teams operate from the U.S. and Europe.

*Operations Management:* We provide our clients with a range of operations management solutions principally in the insurance, healthcare, utilities, banking and financial services, and travel, transportation and logistics sectors, as well as cross-industry operations management solutions, such as finance and accounting services.

Our Operations Management solutions typically involve the transfer to the Company of select business operations of a client such as claims processing, clinical operations, or financial transaction processing, after which we administer and manage the operations for our client on an ongoing basis. As part of this transfer, we hire and train employees to work at our operations centers on the relevant business operations, implement a process migration to these operations centers and then provide services either to the client or directly to the client's customers. Each client contract has different terms based on the scope, deliverables and complexity of the engagement. The operations management solutions we provide to any of our clients (particularly under our general framework agreements), and the revenues and income that we derive from those services, may decline or vary as the type and quantity of services we provide under those contracts change over time, including as a result of a shift in the mix of products and services we provide. For most business process outsourcing engagements we enter into long-term agreements with our clients with typical initial terms ranging from three to eight years. These contracts also usually contain provisions permitting termination of the contract after a notice period set forth in the contract. Although these agreements provide us with a relatively predictable revenue base for a substantial portion of our business, the long selling cycle for our operations management solutions and the budget and approval processes of prospective clients make it difficult to predict the timing of new client acquisitions. Revenues under new client contracts also vary depending on when we complete the selling cycle and the implementation phase.

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

We have been observing a shift in industry pricing models toward transaction-based pricing, outcome-based pricing and other pricing models. We believe this trend will continue and we have begun to use transaction-based, outcome-based and other pricing models with some of our current clients and are seeking to move certain other clients from a billing rate model to a transaction-based or other pricing model. These transaction-based pricing models place the focus on operating efficiency in order to maintain our operating margins. In addition, we have also observed that prospective larger clients are entering into multi-vendor relationships with regard to their outsourcing needs. We believe that the trend toward multi-vendor relationships will continue. A multi-vendor relationship allows a client to seek more favorable pricing and other contract terms from each vendor, which can result in significantly reduced operating margins from the provision of services to such client for each vendor. To the extent our large clients expand their use of multi-vendor relationships and are able to extract more favorable contract terms from other vendors, our operating margins and revenues may be reduced with regard to such clients if we are required to modify the terms of our relationships with such clients.

Within our Operations Management solutions, we also offer software to provide BPaaS services for our insurance and healthcare clients. We have added these capabilities through acquisitions over the last few years. Depending on the software, the fees derived may be based on licenses, installation, support and maintenance, and/or recoveries from claims. We believe our proprietary software technology will be an important source of growth in the future as clients choose to transfer certain business functions to a third-party-owned technology provider.

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 proportion to our total revenues. Revenues from annual maintenance and support contracts for our software platforms provide us with a relatively predictable revenue base and are generally recognized ratably over the terms of the contracts. New license sales and implementation projects have a long selling cycle and it is difficult to predict the timing of when such new contracts will be signed, which may lead to fluctuations in our revenues over the short term.

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*Analytics and Business Transformation:* Our Analytics and Business Transformation solutions include our Analytics, Operations Consulting, and Finance Transformation services. These 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 and productivity, improved effectiveness of business decisions and creation of an improved risk and control environment. We actively cross-sell and, where appropriate, integrate our Analytics and Business Transformation solutions with Operations Management as part of a comprehensive solution for our clients. Our Analytics solutions involve accessing and analyzing large volumes of data from multiple data sources to generate insights about past business performance or predict future business outcomes. In order to provide services, we leverage a large pool of analytics professionals and data scientists who deploy our proprietary analytics tools and methodologies to help clients better utilize their data to generate actionable business insights. These insights generated by our analytics tools, statistical models and data scientists assist clients in making quicker, more accurate and data-driven business decisions, which we believe leads to better business outcomes and tangible financial benefits.

Our Analytics and Business Transformation solutions consist of both recurring and specific projects with contract terms generally not exceeding one to three years. These contracts also usually contain provisions permitting termination of the contract after a short notice period. The short-term nature and specificity of these projects could lead to further material fluctuations and uncertainties in the revenues generated from these businesses. Our analytics and business transformation services can be affected by variations in business cycles. We have experienced a significant increase in demand for our annuity-based analytics and business transformation solutions, with the majority of our revenue generated from engagements that are contracted for one- to three-year terms.

We anticipate that revenues from our analytics and business transformation services will grow as we expand our service offerings and client base, both organically and through acquisitions.

### ***Critical Accounting Policies and Estimates***

For a description of our critical accounting policies and estimates, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" and Note 1 of the Notes to the Consolidated Financial Statements included in our 2014 Annual Report on Form 10-K for the year ended December 31, 2014.

[Table of Contents](#)**Results of Operations**

The following table summarizes our results of operations for the three and six months ended on June 30, 2015 and June 30, 2014:

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	<u>(in millions)</u>		<u>(in millions)</u>	
Revenues, net	\$ 155.6	\$ 119.7	\$ 299.1	\$ 241.5
Cost of revenues (exclusive of depreciation and amortization)	100.5	81.2	193.6	156.2
Gross profit	55.1	38.5	105.5	85.3
Operating expenses:				
General and administrative expenses	20.0	16.2	38.6	31.0
Selling and marketing expenses	11.8	9.5	23.1	19.7
Depreciation and amortization expenses	8.1	6.7	15.1	13.0
Total operating expenses	39.9	32.4	76.8	63.7
Income from operations	15.2	6.1	28.7	21.6
Other income/(expense):				
Foreign exchange gain / (loss)	1.0	(0.1)	2.2	(1.0)
Interest and other income	1.4	0.9	2.5	1.8
Income before income taxes	17.6	6.9	33.4	22.4
Income tax expense / (benefit)	5.5	(0.9)	11.8	3.5
Net income	<u>\$ 12.1</u>	<u>\$ 7.8</u>	<u>\$ 21.6</u>	<u>\$ 18.9</u>

[Table of Contents](#)**Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014****Revenues.**

	<u>Three months ended June 30,</u>		<u>Change</u>	<u>Percentage change</u>
	<u>2015</u>	<u>2014</u>		
	<u>(dollars in millions)</u>			
Operations Management	\$ 112.6	\$ 94.3	\$ 18.3	19.4%
Analytics and Business Transformation	43.0	25.4	17.6	69.2%
Total revenues, net	<u>\$ 155.6</u>	<u>\$ 119.7</u>	<u>\$ 35.9</u>	<u>30.0%</u>

The increase in revenues from operations management services of \$18.3 million was primarily due to revenues from the Overland acquisition of \$17.4 million and net volume increases from our new and existing clients aggregating \$7.3 million. This increase was primarily offset by a decrease in revenues from Travelers of \$4.6 million (net of \$5.7 million of reimbursement of disentanglement costs) and \$1.8 million due to the impact of the depreciation of the Indian rupee and the U.K. pound sterling against the U.S. dollar during the three months ended June 30, 2015 compared to the three months ended June 30, 2014.

The increase in revenues from analytics and business transformation services of \$17.6 million was primarily driven by increased revenues in our analytics services of \$15.8 million (including \$10.3 million from our RPM acquisition) and business transformation services of \$2.5 million, primarily due to our Blue Slate acquisition. The increase is partially offset by \$0.7 million due to the depreciation of the U.K. pound sterling against the U.S. dollar during the three months ended June 30, 2015 compared to the three months ended June 30, 2014.

**Cost of Revenues.**

	<u>Three months ended June 30,</u>		<u>Change</u>	<u>Percentage change</u>
	<u>2015</u>	<u>2014</u>		
	<u>(dollars in millions)</u>			
Total revenues, net	\$ 155.6	\$ 119.7	\$ 35.9	30.0%
Cost of revenues	100.5	81.2	19.3	23.7%
Gross Profit	<u>\$ 55.1</u>	<u>\$ 38.5</u>	<u>\$ 16.6</u>	<u>43.2%</u>
As a percentage of revenues	35.4%	32.1%		

The increase in cost of revenues was primarily due to an increase in employee-related costs of \$15.8 million (including \$13.9 million of employee-related costs related to our recent acquisitions). The increase of \$1.9 million in employee-related cost is due to annual wage increases of personnel directly involved in providing services to our clients. We also experienced an increase in facilities, technology and other operating expenses of \$6.4 million, primarily related to our recent acquisitions. There was an increase in reimbursable expenses of \$0.3 million, which resulted in a corresponding increase in revenues. This increase is partially offset by a decrease of \$3.2 million due to the impact of depreciation of the Indian rupee, the U.K. pound sterling and the Philippine peso against the U.S. dollar during the three months ended June 30, 2015 compared to the three months ended June 30, 2014.

**Gross Profit.** Gross profit increased by \$16.6 million, or 43.2% from \$38.5 million for the three months ended June 30, 2014 to \$55.1 million for the three months ended June 30, 2015. The increase is primarily due to higher revenues and depreciation of the Indian Rupee and the U.K. pound sterling against the U.S. dollar, partially offset by higher cost of revenues during the three months ended June 30, 2015 compared to the three months ended June 30, 2014.

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### ***Selling, General and Administrative (“SG&A”) Expenses.***

	<b>Three months ended June 30,</b>		<b>Change</b>	<b>Percentage change</b>
	<b>2015</b>	<b>2014</b>		
	<b>(dollars in millions)</b>			
General and administrative expenses	\$ 20.0	\$ 16.2	\$ 3.8	23.1%
Selling and marketing expenses	11.8	9.5	2.3	24.7%
Selling, general and administrative expenses	<u>\$ 31.8</u>	<u>\$ 25.7</u>	<u>\$ 6.1</u>	<u>23.7%</u>
As a percentage of revenues	20.5%	21.5%		

The increase in SG&A expenses was primarily due to an increase in employee-related costs of \$5.8 million (including \$3.9 million of employee-related costs related to our recent acquisitions). The increase of \$1.9 million in employee-related cost is due to annual wage increments and an increase in our average headcount. We also experienced an increase in our other SG&A expenses of \$0.9 million, primarily related to our recent acquisitions. This increase was partially offset by a decrease of \$0.6 million due to the impact of depreciation of the Indian rupee, the U.K. pound sterling and the Philippine peso against the U.S. dollar during the three months ended June 30, 2015 compared to the three months ended June 30, 2014.

### ***Depreciation and Amortization.***

	<b>Three months ended June 30,</b>		<b>Change</b>	<b>Percentage change</b>
	<b>2015</b>	<b>2014</b>		
	<b>(dollars in millions)</b>			
Depreciation expense	\$ 5.3	\$ 5.2	\$ 0.1	1.2%
Intangible amortization expense	2.8	1.5	1.3	88.6%
Depreciation and amortization expense	<u>\$ 8.1</u>	<u>\$ 6.7</u>	<u>\$ 1.4</u>	<u>20.7%</u>
As a percentage of revenues	5.2%	5.6%		

Depreciation and amortization expense increased \$1.4 million, or 20.7% from \$6.7 million for the three months ended June 30, 2014 to \$8.1 million for the three months ended June 30, 2015. The increase in depreciation and amortization expense was primarily due to amortization of intangible assets associated with our recent acquisitions.

***Income from Operations.*** Income from operations increased \$9.1 million or 150.1% from \$6.1 million for the three months ended June 30, 2014 to \$15.2 million for the three months ended June 30, 2015. As a percentage of revenues, income from operations increased from 5.1% for the three months ended June 30, 2014 to 9.8% for the three months ended June 30, 2015, which is primarily due to higher gross margins and lower SG&A expense and depreciation and amortization expenses as a percentage of revenue during the three months ended June 30, 2015 compared to three months ended June 30, 2014.

### ***Foreign Exchange Gain / (Loss)***

Net foreign exchange gains and losses are attributable to movement of the U.S. dollar against the Indian rupee, the U.K. pound sterling and the Philippine peso during the three months ended June 30, 2015. The average exchange rate of the Indian rupee against the U.S. dollar increased from 59.87 during the three months ended June 30, 2014 to 63.60 during the three months ended June 30, 2015. We recorded a net foreign exchange gain of \$1.0 million for the three months ended June 30, 2015 compared to a net foreign exchange loss of \$0.1 million for the three months ended June 30, 2014.

**Interest and other income**

	<u>Three months ended June 30,</u>		<u>Change</u>	<u>Percentage change</u>
	<u>2015</u>	<u>2014</u>		
	<u>(dollars in millions)</u>			
Interest and dividend income	\$ 1.5	\$ 0.9	\$ 0.6	65.6%
Interest expense	(0.4)	(0.1)	(0.3)	380.0%
Others, net	0.2	(0.0)	0.2	100.0%
Other income, net	<u>\$ 1.3</u>	<u>\$ 0.8</u>	<u>\$ 0.5</u>	<u>63.1%</u>

Increase in interest and dividend income was primarily due to higher yield on investments during the three months ended June 30, 2015 compared to the three months ended June 30, 2014. This increase in interest and dividend income is partially offset by an increase in interest expense of \$0.3 million related to the Credit Facility and the amortization of related deferred financing cost.

**Income Tax Expense.** Income tax expense increased from a tax benefit of \$0.9 million during the three months ended June 30, 2014 to \$5.5 million during the three months ended June 30, 2015. The effective tax rate increased from a negative 13.8% during the three months ended June 30, 2014 to 31.4% during the three months ended June 30, 2015. The effective tax rate increased primarily due to a one-time reversal of an unrecognized tax benefit of \$2.2 million and lower income in the U.S. due to reimbursement of disentanglement costs to Travelers during the three months ended June 30, 2014 and expiration of a tax holiday in our operating centers in India and the Philippines during the three months ended June 30, 2015 (refer to Note 13 to the unaudited consolidated financial statements for further details).

**Net Income.** Net income increased from \$7.8 million for the three months ended June 30, 2014 to \$12.1 million for the three months ended June 30, 2015, primarily due to an increase in income from operations of \$9.1 million and in other income and foreign exchange gain of \$1.6 million, partially offset by higher income tax expense of \$6.5 million. As a percentage of revenues, net income increased from 6.5% for the three months ended June 30, 2014 to 7.8% for the three months ended June 30, 2015.

[Table of Contents](#)**Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014****Revenues.**

	<u>Six months ended June 30,</u>		<u>Change</u>	<u>Percentage change</u>
	<u>2015</u>	<u>2014</u>		
	<u>(dollars in millions)</u>			
Operations Management	\$ 223.3	\$ 194.4	\$ 28.9	14.8%
Analytics and Business Transformation	75.8	47.1	28.7	60.9%
Total revenues, net	<u>\$ 299.1</u>	<u>\$ 241.5</u>	<u>\$ 57.6</u>	<u>23.8%</u>

The increase in revenues from operations management services of \$28.9 million was primarily due to revenues from the Overland acquisition of \$34.3 million and net volume increases from our new and existing clients aggregating \$10.4 million. This increase was offset by primarily a decrease in revenues from Travelers of \$13.5 million (net of \$8.2 million of reimbursement of disentanglement costs) and \$2.3 million due to the impact of the depreciation of the Indian rupee and the U.K. pound sterling against the U.S. dollar during the six months ended June 30, 2015 compared to the six months ended June 30, 2014.

The increase in revenues from analytics and business transformation services of \$28.7 million was primarily driven by increased revenues in our analytics services of \$22.3 million (including \$11.5 million from our RPM acquisition) and business transformation services of \$7.8 million (including \$4.8 million from our Blue Slate acquisition). The increase is partially offset by \$1.4 million due to the depreciation of the U.K. pound sterling against the U.S. dollar during the six months ended June 30, 2015 compared to the six months ended June 30, 2014. Revenues from new clients for business transformation services were \$1.5 million and \$1.6 million during the six months ended June 30, 2015 and 2014, respectively.

**Cost of Revenues.**

	<u>Six months ended June 30,</u>		<u>Change</u>	<u>Percentage change</u>
	<u>2015</u>	<u>2014</u>		
	<u>(dollars in millions)</u>			
Total revenues, net	\$ 299.1	\$ 241.5	\$ 57.6	23.8%
Cost of revenues	193.6	156.2	37.4	23.9%
Gross profit	<u>\$ 105.5</u>	<u>\$ 85.3</u>	<u>\$ 20.2</u>	<u>23.7%</u>
As a percentage of revenues	35.3%	35.3%		

The increase in cost of revenues was primarily due to an increase in employee-related costs of \$31.3 million (including \$26.5 million of employee-related costs related to our recent acquisitions). The increase of \$4.8 million in employee-related cost is due to annual wage increases of personnel directly involved in providing services to our clients. We also experienced an increase in facilities, technology and other operating expenses of \$10.3 million (including \$9.3 million due to our recent acquisitions) in connection with our new operations centers in India and the Philippines and to support business growth. This increase is partially offset by a decrease in reimbursable expenses of \$0.3 million, resulting in a corresponding decrease in revenues, and by \$3.9 million due to the impact of depreciation of the Indian rupee, the U.K. pound sterling and the Philippine peso against the U.S. dollar during the six months ended June 30, 2015 compared to the six months ended June 30, 2014.

**Gross Profit.** Gross profit increased by \$20.2 million, or 23.7% from \$85.3 million for the six months ended June 30, 2014 to \$105.5 million for the six months ended June 30, 2015. The increase is primarily due to higher revenues and depreciation of the Indian Rupee and the U.K. pound sterling against the U.S. dollar, partially offset by higher cost of revenues during the six months ended June 30, 2015 compared to the six months ended June 30, 2014.



**Selling, General and Administrative (“SG&A”) Expenses.**

	<u>Six months ended June 30,</u>		<u>Change</u>	<u>Percentage change</u>
	<u>2015</u>	<u>2014</u>		
	(dollars in millions)			
General and administrative expenses	\$ 38.6	\$ 31.0	\$ 7.6	24.4%
Selling and marketing expenses	23.1	19.7	3.4	17.2%
Selling, general and administrative expenses	<u>\$ 61.7</u>	<u>\$ 50.7</u>	<u>\$ 11.0</u>	<u>21.6%</u>
As a percentage of revenues	20.6%	21.0%		

The increase in SG&A expenses was primarily due to an increase in employee-related costs of \$8.7 million (including \$6.3 million of employee-related costs related to our recent acquisitions). The increase of \$2.4 million in employee-related cost is due to annual wage increments and an increase in our average headcount. We also experienced an increase in our other SG&A expenses of \$3.1 million (including \$1.9 million related to our recent acquisitions). The increase in other SG&A was primarily due to increase in our facilities costs in connection with our new operations centers in India and the Philippines and other marketing related costs. This increase was partially offset by a decrease of \$0.9 million due to the impact of depreciation of the Indian rupee, the U.K. pound sterling and the Philippine peso against the U.S. dollar during the six months ended June 30, 2015 compared to the six months ended June 30, 2014.

**Depreciation and Amortization.**

	<u>Six months ended June 30,</u>		<u>Change</u>	<u>Percentage change</u>
	<u>2015</u>	<u>2014</u>		
	(dollars in millions)			
Depreciation expense	\$ 10.2	\$ 10.0	\$ 0.2	2.4%
Intangible amortization expense	4.9	3.0	1.9	61.9%
Depreciation and amortization expense	<u>\$ 15.1</u>	<u>\$ 13.0</u>	<u>\$ 2.1</u>	<u>15.9%</u>
As a percentage of revenues	5.1%	5.4%		

Depreciation and amortization expense increased \$2.1 million, or 15.9 % from \$13.0 million for the six months ended June 30, 2014 to \$15.1 million for the six months ended June 30, 2015. The increase in depreciation and amortization expense was primarily due to amortization of intangible assets associated with our recent acquisitions.

**Income from Operations.** Income from operations increased \$ 7.1 million or 33.0% from \$21.6 million for the six months ended June 30, 2014 to \$28.7 million for the six months ended June 30, 2015. As a percentage of revenues, income from operations increased from 8.9% for the six months ended June 30, 2014 to 9.6% for the six months ended June 30, 2015, which is primarily due to lower SG&A expense and depreciation and amortization expenses as a percentage of revenue during the six months ended June 30, 2015 compared to six months ended June 30, 2014.

**Foreign Exchange Gain /(Loss)**

Net foreign exchange gains and losses are attributable to movement of the U.S. dollar against the Indian rupee, the U.K. pound sterling and the Philippine peso during the six months ended June 30, 2015. The average exchange rate of the Indian rupee against the U.S. dollar increased from 60.67 during the six months ended June 30, 2014 to 62.83 during the six months ended June 30, 2015. We recorded a net foreign exchange gain of \$2.2 million for the six months ended June 30, 2015 compared to a net foreign exchange loss of \$1.0 million for the six months ended June 30, 2014.

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### *Interest and other income*

	Six months ended June 30,		Change	Percentage change
	2015	2014		
	(dollars in millions)			
Interest and dividend income	\$ 2.9	\$ 1.8	\$ 1.1	62.8%
Interest expense	(0.6)	(0.2)	(0.4)	220.7%
Others, net	0.2	0.2	0.0	0.0%
Other income, net	<u>\$ 2.5</u>	<u>\$ 1.8</u>	<u>\$ 0.7</u>	<u>38.3%</u>

Increase in interest and dividend income was primarily due to higher yield on investments during the six months ended June 30, 2015 compared to the six months ended June 30, 2014. This increase in interest and dividend income is partially offset by an increase in interest expense of \$0.4 million related to the Credit Facility and the amortization of related deferred financing cost.

**Income Tax Expense.** Income tax expense increased from \$3.5 million during the six months ended June 30, 2014 to \$11.7 million during the six months ended June 30, 2015. The effective tax rate increased from 15.7% during the six months ended June 30, 2014 to 35.2% during the six months ended June 30, 2015. The increase in effective tax rate was primarily due to immaterial errors related to prior years (individually as well as when aggregated) which was recorded during the six months ended June 30, 2015, and resulted in an increase in income tax expense of approximately \$1.8 million (including \$1.3 million related to the taxability of certain foreign income in those prior years for which we recorded a reserve for an unrecognized tax benefit). The effective tax rate further increased due to one-time reversal of an unrecognized tax benefit of \$2.2 million, lower income in the U.S. due to reimbursement of disentanglement costs to Travelers during the six months ended June 30, 2014 and expiration of a tax holiday in our operating centers in India and the Philippines during the six month ended June 30, 2015 (refer to Note 13 to the unaudited consolidated financial statements for further details).

**Net Income.** Net income increased from \$18.9 million for the six months ended June 30, 2014 to \$21.6 million for the six months ended June 30, 2015, primarily due to an increase in income from operations of \$7.1 million and an increase in other income and foreign exchange gain of \$3.9 million, partially offset by higher income tax expense of \$8.2 million. As a percentage of revenues, net income decreased from 7.8% for the six months ended June 30, 2014 to 7.2% for the six months ended June 30, 2015.

### **Liquidity and Capital Resources**

	Six months ended June 30,	
	2015	2014
	(dollars in millions)	
Opening cash and cash equivalents	\$ 176.5	\$ 148.1
Net cash provided by operating activities	27.2	27.7
Net cash used for investing activities	(124.5)	(18.1)
Net cash provided by financing activities	16.8	1.8
Effect of exchange rate changes	(1.3)	1.4
Closing cash and cash equivalents	<u>\$ 94.7</u>	<u>\$ 160.9</u>

As of June 30, 2015, we had \$94.7 million (including \$38.7 million held by our foreign subsidiaries) in cash and cash equivalents. We do not intend to repatriate our overseas funds since our future growth partially depends upon continued infrastructure and technology investments, geographical expansions and acquisitions outside of the U.S. Therefore, we need to continuously and permanently reinvest the earnings generated outside of the U.S. If we were to repatriate our overseas funds, we would accrue and pay applicable taxes.

**Operating Activities:** Cash flows provided by operating activities decreased from \$27.7 million for the six months ended June 30, 2014 to \$27.2 million for the six months ended June 30, 2015. Generally, factors that affect our earnings – including pricing, volume of services, costs and productivity – affect our cash flows provided by operations in a similar manner. However, while management of working capital, including timing of collections and payments affects operating results only indirectly, the impact on the working capital and cash flows provided by operating activities can be significant.

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The decrease in cash flows provided by operations for the six months ended June 30, 2015 was predominantly due to an increase in working capital of \$18.3 million during the six months ended June 30, 2015 compared to an increase of \$15.2 million during the six months ended June 30, 2014, partially offset by an increase in net income adjusted for non-cash expenses of \$2.5 million during the six months ended June 30, 2015 compared to the six months ended June 30, 2014.

*Investing Activities:* Cash flows used for investing activities increased from \$18.1 million for the six months ended June 30, 2014 to \$124.5 million for the six months ended June 30, 2015. The increase was primarily due to cash paid for the RPM acquisition (net of cash acquired) of \$44.4 million, net increase in short term investments of \$65.9 million (carried at fair value option under ASC 825), partially offset by decrease in capital expenditure of \$2.3 million related to networking equipment, computers, software and our new operations centers in India and Philippines during the six months ended June 30, 2015 compared to the six months ended June 30, 2014.

*Financing Activities:* Cash flows provided by financing activities increased from \$1.8 million for the six months ended June 30, 2014 to \$16.8 million for the six months ended June 30, 2015. The increase was primarily due to \$20.0 million of net borrowings under the Credit Agreement (as described below in “– Financing Arrangements”), partially offset by shares repurchases of \$5.1million during the six months ended June 30, 2015.

We expect to use cash from operating activities to maintain and expand our business. As we have focused on expanding our cash flow from operating activities we continue to make capital investments, primarily related to new facilities and capital expenditures associated with leasehold improvements to build our facilities and the purchase of telecommunications equipment and computer hardware and software in connection with managing client operations. We incurred \$14.4 million of capital expenditures in the six months ended June 30, 2015. We expect to incur capital expenditures of between \$8 million to \$12 million in the remainder of 2015, primarily to meet the growth requirements of our clients, including additions to our facilities as well as investments in technology applications and infrastructure. The timing and volume of such capital expenditures in the future will be affected by new client contracts we may enter into or the expansion of business under our existing client contracts.

In connection with any tax assessment orders that have been issued or may be issued against us or our subsidiaries, we may be required to deposit additional amounts with respect to such assessment orders (refer to Note 16 to our unaudited consolidated financial statements for further details).

We anticipate that we will continue to rely upon cash from operating activities to finance our smaller acquisitions, capital expenditures and working capital needs. If we have significant growth through acquisitions, we may need to obtain additional financing.

### ***Financing Arrangements (Debt Facility)***

We and certain of our subsidiaries entered into a credit agreement with the lenders identified therein and JPMorgan Chase Bank, N.A., as administrative agent, that became effective as of October 27, 2014 (the “Credit Agreement”). The Credit Agreement provides for a \$50 million revolving credit facility and an option to increase the commitments under the Credit Agreement by an additional \$50 million, subject to certain approvals and conditions as set forth in the Credit Agreement. We exercised the option under the Credit Agreement on February 23, 2015 and increased our credit facility to \$100 million. As of June 30, 2015, we had a total debt of \$70 million under the Credit Agreement. Borrowings under the Credit Agreement may be used for working capital and general corporate purposes of the Company and its subsidiaries and for acquisitions.

Depending on the type of borrowing, loans under the Credit Agreement bear interest at a rate equal to the specified prime rate (alternate base rate) or adjusted LIBO rate, plus, in each case, an applicable margin. The applicable margin is tied to our leverage ratio and ranges from 0.25% to 0.75% per annum with respect to loans (“ABR Loans”) pegged to the specified prime rate, and 1.25% to 1.75% per annum on loans (“Eurodollar Loans”) pegged to the adjusted LIBO rate (such applicable margin, the “Applicable Rate”). The revolving credit commitments under the Credit Agreement are subject to a commitment fee. The commitment fee is also tied to our leverage ratio, and ranges from 0.20% to 0.30% per annum on the average daily amount by which the aggregate revolving commitments exceed the sum of outstanding revolving loans and letter of credit obligations.

### ***Off-Balance Sheet Arrangements***

As of June 30, 2015 and December 31, 2014, we had no off-balance sheet arrangements or obligations.

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### **Contractual Obligations**

The following table sets forth our contractual obligations as of June 30, 2015:

	Payment Due by Period				Total
	Less than 1 year	1-3 years	4-5 years	After 5 years	
	(dollars in millions)				
Capital leases	\$ 0.7	\$ 0.3	\$ —	\$ —	\$ 1.0
Operating leases	9.6	8.6	3.8	0.3	22.3
Purchase obligations	2.7	—	—	—	2.7
Fair value of earn-out consideration	1.6	1.2	—	—	2.8
Other obligations(a)	2.1	3.5	2.8	3.6	12.0
Borrowings					
Principal payments	10.0	—	60.0	—	70.0
Interest Payments(b)	1.2	2.0	2.0	—	5.2
Total contractual cash obligations(c)	<u>\$ 27.9</u>	<u>\$15.6</u>	<u>\$68.6</u>	<u>\$ 3.9</u>	<u>\$116.0</u>

(a) Represents estimated payments under the Gratuity Plan.

(b) Interest on borrowings is calculated based on the effective interest rate during the six months ended June 30, 2015.

(c) Excludes \$4.0 million related to uncertain tax positions, since the extent of the amount and timing of payment is currently not reliably estimable or determinable.

Certain units of our Indian subsidiaries were established as 100% export-oriented units under the “STPI” scheme promulgated by the Government of India. These units are exempt from customs, central excise duties, and levies on imported and indigenous capital goods, stores, and spares. We have undertaken to pay custom duties, service taxes, levies, and liquidated damages payable, if any, in respect of imported and indigenous capital goods, stores, and spares consumed duty free, in the event that certain terms and conditions are not fulfilled. We believe, however, that these units have in the past satisfied and will continue to satisfy the required conditions.

Our operations centers in the Philippines are registered with the PEZA. The registration provides us with certain fiscal incentives on the import of capital goods and requires that Exl Philippines meet certain performance and investment criteria. We believe that these centers have in the past satisfied and will continue to satisfy the required criteria.

### **Recent Accounting Pronouncements**

For a description of recent accounting pronouncements, see Note 2 – “Recent Accounting Pronouncements” under Item 1 – “Financial Statements” to our unaudited consolidated financial statements included in this Quarterly report on Form 10-Q.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

During the six months ended June 30, 2015, there were no material changes in our market risk exposure. For a discussion of our market risk associated with exchange rate risk and interest rate risk, see Item 7A “Quantitative and Qualitative Disclosures about Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2014.

### **ITEM 4. CONTROLS AND PROCEDURES**

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

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file under the Securities Exchange Act of 1934, as amended (the “Exchange Act,”) is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), to allow timely decisions regarding required financial disclosure. In connection with the preparation of this Quarterly Report on Form 10-Q,

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our management carried out an evaluation, under the supervision and with the participation of the CEO and CFO, of the effectiveness and operation of our disclosure controls and procedures as of June 30, 2015. Based upon that evaluation, the CEO and CFO have concluded that, as of June 30, 2015, our disclosure controls and procedures were effective.

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

During the three months ended June 30, 2015, there was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

In making its assessment of the changes in internal control over financial reporting during the three months ended June 30, 2015, our management excluded an evaluation of the disclosure controls and procedures of RPM which we acquired on March 20, 2015, Overland which we acquired on October 24, 2014 and Blue Slate which we acquired on July 1, 2014. See Note 5 to our consolidated financial statements for details of our acquisitions.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

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

### **ITEM 1A. RISK FACTORS**

We have disclosed under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014 a number of risks which may materially affect our business, financial condition or results of operations. You should carefully consider the “Risk Factors” set forth in our Annual Report on Form 10-K for the year ended December 31, 2014 and the other information set forth elsewhere in this Quarterly Report on Form 10-Q. You should be aware that these risk factors and other information may not describe every risk facing our Company. Additional risks and uncertainties not currently known to us may also materially adversely affect our business, financial condition and/or results of operations.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

#### ***Unregistered Sales of Equity Securities***

None.

#### ***Use of Proceeds***

None.

#### ***Purchases of Equity Securities by the Issuer***

During the three months ended June 30, 2015, purchases of common stock were as follows:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per share (2)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs</b>
April 1, 2015 through April 30, 2015	707(1)	\$ 33.68	—	\$ 20,000,000
May 1, 2015 through May 31, 2015	53,608	34.95	53,608	18,125,076
June 1, 2015 through June 30, 2015	80,261	35.01	80,261	15,315,108
<b>Total</b>	<b>134,576</b>	<b>—</b>	<b>133,869</b>	<b>—</b>

(1) Includes 707 shares of the Company’s common stock acquired by the Company in connection with satisfaction of tax withholding obligations on vested restricted stock.

(2) Average of high and low price of common stock on the trading day prior to the vesting date of the shares of restricted stock.

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**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

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

- 3.1 Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on October 25, 2006).
- 3.2 Third Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on May 2, 2011).
- 10.1 Employment Agreement, dated April 29, 2015, between ExlService Holdings, Inc. and Rohit Kapoor.
- 10.2 ExlService Holdings, Inc. 2015 Amendment and Restatement of the 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 25, 2015).
- 31.1 Certification of the Chief Executive Officer of ExlService Holdings, pursuant to Rule 13a-14 of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer of ExlService Holdings, pursuant to Rule 13a-14 of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: July 30, 2015

**EXLSERVICE HOLDINGS, INC.**

By: /s/ VISHAL CHHIBBAR

**Vishal Chhibbar**

**Executive Vice President and**

**Chief Financial Officer**

**(Duly Authorized Signatory, Principal  
Financial and Accounting Officer)**

**EMPLOYMENT AND NON-COMPETITION AGREEMENT**

**EMPLOYMENT AND NON-COMPETITION AGREEMENT** (this "Agreement") dated as of April 29, 2015 (the "Effective Date"), by and among **EXLSERVICE HOLDINGS, INC.**, a Delaware corporation (together with its successors and assigns, "Holdings" or the "Company", and together with any subsidiaries of Holdings, the "Companies"), and Rohit Kapoor (the "Executive").

**WITNESSETH:**

A. The Companies and Executive are currently parties to an Amended and Restated Employment and Non-Competition Agreement dated as of December 16, 2008 (as amended and renewed through the date hereof, the "Current Employment Agreement").

B. The Company desires to continue to employ Executive, and Executive is willing to continue to be employed by the Company, on the terms and conditions set forth in this Agreement, which shall supersede the Current Employment Agreement, effective as of the Effective Date.

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

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

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

Section 2. Employment Term. Subject to the provisions of Section 7 of this Agreement, the term of the Executive's employment under this Agreement shall commence on January 1, 2015 and end on December 31, 2017 (the "Initial Employment Term"); provided, however, that the Initial Employment Term shall be automatically extended for successive twelve (12) month periods unless, no later than 120 days prior to the expiration of the Initial Employment Term or any extension thereof, either party hereto shall provide written notice to the other party hereto of its or his desire not to extend the Employment Term hereof (the Initial Employment Term together with any extension shall be referred to hereinafter as the "Employment Term").



Section 3. Duties, Authority, Status and Responsibilities.

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

(b) During the Employment Term and except as otherwise agreed by the Company, Executive shall devote Executive's full employable time, attention and reasonable best efforts to the business affairs of the Companies (except during vacations or illness) and will not actively engage in outside activities, whether or not such activity is pursued for gain, profit or other pecuniary advantage unless such activity (and the amount thereof) is approved by the Board; provided, that, nothing herein shall preclude Executive from (i) engaging in charitable activities and community affairs and (ii) managing Executive's personal investments and affairs, so long as such activities (x) do not interfere, other than in an immaterial way, with the performance of Executive's duties and responsibilities hereunder, (y) adversely impact the business or reputation of the Company or any of its affiliates, or (z) constitute a breach of any of Sections 9 through 11 hereof (it being understood that Board approval shall remain required for any foregoing activities engaged in at or on behalf of business organizations. Executive's list of approved outside activities with a description of the nature, scope and time commitment for each of such outside activities is attached hereto as Schedule 3(b) (the "Outside Activities")<sup>1</sup> (it being understood that such approval is based on the descriptions set forth in Schedule 3(b) and the level of activity and the nature of the activities remains consistent with the description set forth therein). The Board may request Executive to take reasonable steps to terminate an affiliation with any entity listed on Schedule 3(b) as promptly as practicable, but, in any event, no later than three (3) months after such request (provided, however, if Executive is required to divest any equity securities, Executive shall have six (6) months from the date of such request to dispose of such securities), if, in the Board's reasonable determination, Executive's affiliation with any such entity listed on Schedule 3(b) presents, or would present, a material harm to the reputation, business or prospects of the Company. Subject to Executive's election or appointment as such, Executive further agrees to serve (without additional compensation) if so designated by the stockholders of the Companies, as applicable, during the Employment Term as a director and a

<sup>1</sup> Schedule to be updated by Executive.

member of any committee of the board of directors of any of the Companies. In addition to the other titles and responsibilities described in this Section 3, if requested by the Board, Executive shall serve (without additional compensation) during the Employment Term as an officer of any of the subsidiaries of the Company.

Section 4. Cash Compensation.

(a) Subject to paragraph (b) below, during the Employment Term, Executive shall receive an annual base salary (the "Base Salary") of SIX HUNDRED THOUSAND AND 00/100 DOLLARS (\$600,000) (the "Initial Base Salary"). Notwithstanding the provisions of Section 4(b), the Base Salary shall be reviewed no less frequently than annually during the Employment Term for increase, if any, in the sole discretion of the compensation committee of the Board ("Compensation Committee"). The Base Salary shall not be decreased at any time, or for any purpose, during the Employment Term, unless a Company-wide decrease in pay is implemented. In such case, any decrease in the Base Salary shall be no greater, as a percentage of the Base Salary, than the lowest percentage decrease in the base salary of any other member of the Company's senior management. The Base Salary shall be payable in accordance with the customary payroll practices of the Company for salaried employees.

(b) Executive shall have an opportunity to receive an annual cash bonus equal to 100% of Base Salary at target, with a maximum payment of no greater than 200% of Base Salary, with respect to each calendar year that ends during the Employment Term. The Compensation Committee shall determine the criteria and thresholds at which the target and maximum bonus shall be earned, as well as the level of attainment of the bonus criteria below which no bonus shall be earned, and the level of attainment at which a bonus of other than 100% or 200% of Base Salary shall be earned. To the extent there are extraordinary events such as acquisitions or dispositions, targets will be amended by the Board to reflect those events. Executive shall be paid Executive's annual cash bonus (if any) when bonuses are paid generally to senior officers of the Company following completion of the audited financial statements of the Company. Such bonus shall be paid no later than December 31 of the calendar year following the year in which such bonus is earned. With respect to any tax year in which the Company is subject to Section 162(m) of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder (the "Code"), the Committee may determine to take such actions as shall be necessary to preserve the tax deductibility of the bonus. In that event, this Section 4(b) shall construed in a fashion that achieves that goal.

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

Section 6. Other Benefits.

(a) Benefit Plans, etc. During the Employment Term, Executive shall (i) be able to participate in all employee benefit plans and programs that are currently made available to the Company's senior executives generally or to its employees generally, including, without limitation, pension, profit-sharing, savings and other retirement plans or programs, medical, dental, hospitalization, short-term and long-term disability and life insurance plans or programs, accidental death and dismemberment protection, travel accident insurance, and any other employee welfare benefit plan or program that may be sponsored by the Company from time to time, whether funded or unfunded, and (ii) receive such additional fringe benefits and perquisites as the Board may, in its sole discretion, from time to time determine. Nothing in this Agreement shall be construed to require the Company to establish or maintain any such plans, programs, benefits or perquisites.

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

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

(d) Travel. See Schedule 6 attached hereto.

(e) Transportation. See Schedule 6 attached hereto.

(f) Relocation. If Executive relocates his residence at the request of the Company during the Employment Term, the Company shall reimburse Executive for the cost of relocating himself and his immediate family, as reasonably determined at such time by the Board.

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

(h) Equity Awards. Executive shall be eligible to receive equity-based awards annually during the Employment Term. The Compensation Committee shall have the sole discretion to determine the amount and form of any such awards; provided that in making such determination it shall take into account (i) an aggregate "baseline" value equal to the value of 75,000 shares of Series B common stock of Holdings ("Common Stock"), (ii) the Company's performance against budget since the grant date of the immediately preceding annual equity-based

awards to Executive and (iii) any changes in market compensation of similarly situated executives since the grant date of the immediately preceding annual equity-based awards to Executive. The baseline value for such annual equity-based awards is subject to review for increase at the discretion of the Board. Executive agrees that if the Company changes its annual equity grant determinations to use a dollar-denominated basis (as contrasted with share-denominated basis), Executive's annual equity-based awards shall also be determined on a dollar-denominated basis, and the "baseline" value for such purpose shall equal the value of the most recently awarded annual equity-based award to Executive. The definitive terms of each such equity-based award shall be consistent with the terms of this Agreement and no less favorable to Executive than the terms applicable to any corresponding award to any of Executive's direct reports, except that the vesting of any such award shall be no less favorable than on an annual ratable basis over four years from the date of grant.

In addition to the annual award granted in 2015, Executive shall receive a special one-time grant of performance-based restricted stock units pursuant to the form of grant agreement attached hereto as Exhibit A.

(i) Timing of Certain Payments. To the extent that any reimbursements pursuant to Sections 5 or 6 constitute "deferred compensation" under Section 409A (as defined below), any such reimbursement payment due to Executive shall be paid to Executive as promptly as practicable, and in all events on or before the last day of Executive's taxable year following the taxable year in which the related expense was incurred. The reimbursements pursuant to Sections 5 or 6 are not subject to liquidation or exchange for another benefit and the amount of such benefits and reimbursements that Executive receives in one taxable year shall not affect the amount of such benefits or reimbursements that Executive receives in any other taxable year.

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

(a) Death. The Employment Term and Executive's employment hereunder shall terminate upon Executive's death. In that event, Executive's estate shall be entitled to a lump sum payment equal to a pro-rata portion of the projected bonus amount for the year during which the death occurs, as reasonably determined by the Compensation Committee, such pro-rata portion to be paid in cash as soon as practicable and in all events within thirty (30) days after the Termination Date. Following any termination of Executive's employment hereunder pursuant to this Section 7(a), and except as set forth in Sections 7(g), 7(h) and 7(i) below, the Company shall have no further obligation to pay any compensation, or provide any benefits, under this Agreement.

(b) Disability. Either Party may terminate Executive's employment hereunder for Disability. "Disability," shall mean Executive's inability, due to physical or mental incapacity, to substantially perform Executive's duties and responsibilities under this Agreement for a period of 180 consecutive days. In conjunction with determining Disability for purposes of this Agreement, Executive hereby (i) consents to any such examinations which are relevant to a determination of whether Executive is mentally and/or physically disabled and (ii) agrees to furnish such medical information as may be reasonably requested, and to waive any applicable physician-patient privilege that may arise because of such examination.

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

Following any termination of Executive's employment hereunder pursuant to this Section 7(b), except as (i) set forth in Sections 7(g), 7(h) and 7(i) below, and (ii) for payment of pro-rata portion of the projected bonus amount for the year during which the termination due to Disability occurs, as reasonably determined by the Compensation Committee, such pro-rata portion to be paid in cash as soon as practicable and in all events within thirty (30) days following the Termination Date, the Company shall have no further obligation to pay any compensation or provide any benefits under this Agreement.

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

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

- (B) fraud, embezzlement, gross negligence, self-dealing, dishonesty or other gross and willful misconduct which has caused serious and demonstrable injury to the Company;
- (C) material violation by Executive of any material Company policy, which, if curable, is not remedied within fifteen (15) days after Executive's receipt of written notice from the Company specifying such violation in reasonable detail;
- (D) willful and continuing failure to substantially perform Executive's duties (other than for reason of physical or mental incapacity) which failure to perform continues beyond fifteen (15) days after a written demand for substantial improvement in Executive's performance, identifying specifically and in detail the manner in which improvement is sought, is delivered to Executive by the Company; provided that a failure to achieve performance objectives shall not by itself constitute Cause and no act or failure to act by Executive shall be considered "willful" unless done or failed to be done by Executive in bad faith and without a reasonable belief that Executive's actions or omission was in the best interest of the Company;
- (E) Executive's failure to reasonably cooperate in an investigation involving the Company by any governmental authority;
- (F) Executive's material, knowing and intentional failure to comply with applicable laws with respect to the execution of the Company's business operations, including, without limitation, a knowing and intentional failure to comply with the Prevention of Corruption Act of India, 1988, or the United States Foreign Corrupt Practices Act of 1977, as amended; provided, that, if all of the following conditions exist, there will be a presumption that Executive has acted in accordance with such applicable laws: Executive is following, in good faith, the written advice of counsel, such counsel having been approved by the Board as outside counsel to the Company for regulatory and compliance matters, in the form of a legal memorandum or a written legal opinion, and Executive has, in good faith, provided to such counsel all accurate and truthful facts necessary for such counsel to render such legal memorandum or written legal opinion;
- (G) Executive's failure to use his best reasonable efforts to follow the lawful directives of the Board which is not remedied within fifteen (15) days after Executive's receipt of written notice from the Company specifying such failure in reasonable detail;
- (H) Executive's use of alcohol or drugs which materially interferes with the performance of his duties;
- (I) Executive's failure to take the reasonable steps necessary to terminate his affiliation with any entity listed on Schedule 3(b) within six months after being requested by the Board, pursuant to Section 3(b) hereof, to take such action; or
- (J) Executive's material breach of a material provision of this Agreement which is not remedied within fifteen (15) days after Executive's receipt of written notice from the Company specifying such breach in reasonable detail.

Following any termination or expiration of the Employment Term and Executive's employment hereunder pursuant to this Section 7(c), and except as set forth in Sections 7(g), 7(i), and (only in the case of expiration of the Employment Term due to notice or non-extension from the Executive) 7(h), Executive shall not be entitled to receive any further compensation or payments under this Agreement.

(d) Termination with Good Reason; Without Cause; Company's Non-Extension of the Employment Term. The Employment Term and Executive's employment hereunder (i) may be terminated by Executive with Good Reason, (ii) may be terminated by the Company "Without Cause" (that is, other than for Disability or Cause in accordance with Section 7(b) or 7(c)) and (iii) shall terminate upon expiration of the Employment Term due to the Company's giving Executive a notice of its desire not to extend the Employment Term in accordance with Section 2. "Good Reason" shall mean the occurrence, without Executive's prior written consent, of any of the following events:

(A) a substantial reduction of Executive's duties or responsibilities, or Executive being required to report to any person other than the Board, or an adverse change in Executive's job title as Chief Executive Officer of the Company; provided that, if there is a "Change of Control" (as defined below) and Executive retains similar title and similar authority with the Company or any entity that acquires the Company (or any affiliate or subsidiary of such entity) following such Change of Control, the parties agree that any change in the title of Executive shall not constitute a significant reduction of Executive's duties and authorities hereunder; it being understood that (y) "Good Reason" shall be deemed to exist if Executive is no longer the chief executive officer of the Company or any entity that acquires the Company, and (z) if the common stock of the Company ceases to be publicly traded on a national securities exchange, then "Good Reason" shall be deemed not to exist if thereafter Executive continues to be the chief executive officer of the Company (or any entity that acquires the Company) and he remains the principal senior-most executive with overall authority (subject to the approval of the Board or the board of directors or equivalent governing body of any entity that acquires the Company over operating plans and budgets;

(B) a reduction of Executive's then Base Salary or annual cash bonus opportunity to below 100% of Base Salary at target other than that described in Section 4(a);

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

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

provided that, a termination by Executive with Good Reason shall be effective only if, within 45 days following Executive's first becoming aware of circumstances giving rise to Good Reason: (x) Executive delivers a written notice to the Company that describes such circumstances in reasonable detail and requests cure; (y) the Company fails to cure such circumstances within 30 days following its receipt of such notice; and (z) Executive delivers a Notice of Termination with Good Reason to the Company within 15 days after such cure period has expired.

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

(i) payments aggregating 24 months of Base Salary, plus payment of Executive's actual bonus earned for the year of termination determined (in accordance with the Company's annual incentive plan and customary practices) as if Executive had remained employed for the full year in which Executive's employment hereunder terminates and thereafter until the date that the bonus is actually determined and paid, such Base Salary to be paid ratably (subject to Sections 7(m), 7(n) and 12(s)(ii) below, and in accordance with Company's existing payroll practices but no less frequently than monthly) during the period that commences on the Termination Date and that ends on the second anniversary of such date, and such actual bonus, if any, to be paid ratably (subject to Sections 7(m), 7(n) and 12(s)(ii) below, and in accordance with the Company's existing payroll practices but no less frequently than monthly) during the period that commences as of the date that the Compensation Committee has determined such bonus amount and ends on the second anniversary of the Termination Date, provided however, that any payment that would otherwise be due under this Section 7(e)(i) prior to the first payroll date that follows the 60<sup>th</sup> day after the Termination Date shall be accumulated and paid on such first payroll date (but not later than 90 days after the Termination Date, or, if earlier, March 15<sup>th</sup> of the year following the year in which the Termination Date occurs).

(ii) continuation (subject to Sections 7(m), 7(n), and 12(s)(ii) below) of any life insurance coverage provided pursuant to Section 6(a) for the eighteen (18) month period immediately following the Termination Date so long as such continuation of coverage is permitted under the Company's benefit plans and applicable law; provided, that, such coverage shall terminate if Executive commences employment with a subsequent employer within the applicable period;



(iii) with respect to outstanding equity-based awards that were part of the Company's annual equity grant cycle (and not any one-time or "special" grants), Executive shall be treated as if he were still employed by the Company for a period of two years following the Termination Date; for clarity, there shall be no acceleration of vesting; Executive shall be permitted to continue to vest in such awards on the same schedule that he would have vested in such awards had he continue to be employed during such two-year period (subject, in the case of any such awards that are subject to performance-based vesting in addition to service-based vesting, to the achievement of the applicable performance criteria), and if such awards do not vest by their terms by the end of such two-year period, such awards shall be forfeited (and any such awards that could not possibly vest by the end of such two-year period shall be forfeited immediately upon the Termination Date); and

(iv) the benefits set forth in Sections 7(g), 7(h) and 7(i).

Following any termination of Executive's employment hereunder that is governed by Section 7(d), and except as provided in this Section 7(e), Executive shall not be entitled to receive any compensation or payments under this Agreement.

(f) Termination Following a Change of Control. Notwithstanding anything in this Section 7 to the contrary, if Executive's employment hereunder is involuntarily terminated by the Company Without Cause, or if Executive terminates his employment hereunder with Good Reason in accordance with Section 7(d), in each case within 12 months following a Change of Control, or if Executive's employment hereunder is involuntarily terminated by the Company prior to the date on which the Change in Control occurs, and if it is reasonably demonstrated by Executive that such termination of employment (x) was at the request of a third party who has taken steps reasonably calculated to effect a Change in Control or (y) otherwise arose in connection with or anticipation of a Change in Control, then Executive shall receive, in complete satisfaction of all payments (including severance) due under this Agreement, (i) a lump sum payment equal to 24 months of Base Salary and (ii) payment of Executive's actual bonus earned for the year of termination as determined in accordance with the Company's annual incentive plan and customary practices as if Executive had remained employed hereunder for the full year in which Executive's employment terminates and thereafter until the bonus is actually determined and paid. The payment referred to in subclause (i) of this Section 7(f) shall be paid (without duplication of payments previously made in respect of Base Salary under Section 7(e)(i) above, and subject to Sections 7(m), 7(n) and 12(s)(ii) below) on the first payroll date following (but not more than one month after or, if earlier, March 15<sup>th</sup> of the year following the year in which occurs) the later of (x) the 60<sup>th</sup> day after the Termination Date and (y) the occurrence of the Change in Control. The payment referred to in subclause (ii) of this Section 7(f) shall be paid (without duplication of payments previously made in respect of such bonus under Section 7(e)(i) above, and subject to Sections 7(m), 7(n) and 12(s)(ii) below) on the first payroll date

following (but not more than one month after or, if earlier, March 15<sup>th</sup> of the year following the year in which occurs) the latest of (x) 60<sup>th</sup> day after the Termination Date, (y) the date that the bonus is determined, and (z) the occurrence of the Change in Control. In addition, upon a termination of employment described in this Section 7(f), (A) Executive shall receive the benefits set forth in Sections 7(g), 7(h) and 7(i), and (B) all unvested equity-based awards granted to Executive on or after September 30, 2006 shall become fully vested and, in the case of stock options, fully vested and exercisable.

(g) Post-Termination Health Insurance. On any termination of Executive's employment hereunder by the Company Without Cause or by Executive other than (x) due to death or Disability, (y) upon expiration of the Employment Term due to Executive's giving the Company a notice of his desire not to extend the Employment Term in accordance with Section 2, or (z) by Executive without Good Reason, the Company shall pay on behalf of Executive and his eligible dependents the cost of continued coverage under the Company's group health plan for eighteen (18) months following the Termination Date in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), subject to such persons making timely elections to continue such coverage pursuant to COBRA and satisfaction of COBRA's eligibility requirements and other terms, conditions, restrictions and exclusions. Should COBRA coverage become unavailable due to the Company's failure to maintain a group health plan, the Company shall reimburse Executive and his dependents for the premium cost of comparable coverage obtained directly by Executive and his dependents for the balance of the 18 month period. The Company's obligation to pay such premium costs shall cease at the time Executive (or, in the case of Executive's death, his eligible dependents) become eligible for comparable health benefits from another employer. Without limiting the generality of the foregoing, following any termination of Executive's employment hereunder (other than by the Company for Cause), the Company shall continue to provide Executive with health coverage under the Company's group health plan, subject to the terms and conditions of such plan as in effect from time to time, provided that with respect to coverage for periods from and after the later of (1) the date that is eighteen (18) months following the Termination Date and (2) the date Executive ceases to be a member of the Board, Executive shall reimburse the Company for its costs of providing this coverage to Executive (and his dependents, as applicable), and provided further that if Executive ceases to be a member of the Board prior to the date that is eighteen (18) months following the Termination Date, Executive shall also reimburse the Company for such costs during the remaining portion of such 18-month period unless the Company is obligated to pay such costs pursuant to the first sentence of this Section 7(g). All such reimbursements pursuant to the preceding sentence shall be made within 30 days following delivery to Executive by the Company of an invoice therefor. In addition, if Executive elects COBRA coverage following the cessation of his employment for any reason whatsoever (whether paid by the Company or Executive), the Company will, at the request of Executive, facilitate and use commercially reasonable efforts to cause the conversion of his Company group health insurance coverage to an individual policy upon the expiration of Executive's eligibility for COBRA coverage; provided

that the foregoing is not intended to be a guarantee by the Company that such conversion will be available to Executive at that time. Any payment made, or benefit provided, to Executive under Section 7(e)(ii) or under this Section 7(g) shall be paid as soon as practicable after it becomes due but in no event (subject to Sections 7(m), 7(n) and 12(s)(ii) below) later than the third calendar year following the calendar year in which Executive's "separation from service" (as defined in Section 409A) occurs.

(h) On any termination of Executive's employment hereunder by the Company Without Cause, or by Executive other than (x) due to death or Disability, (y) upon expiration of the Employment Term due to Executive's giving the Company a notice of its desire not to extend the Employment Term in accordance with Section 2, or (z) without Good Reason, prompt payment or provision of any bonus for any calendar year that ended prior to the Termination Date to the extent unpaid, payable as soon as practicable and (subject to Sections 7(n) and 12(s)(ii) below) in all events within thirty (30) days following the Termination Date, and determined on no less favorable a basis than would have applied if Executive had remained employed hereunder through the date the bonus is fully paid (each, a "Prior Year Unpaid Bonus").

(i) On any termination of his employment hereunder, Executive shall be entitled to: (i) payment of (x) any accrued but unpaid Base Salary and vacation days and (y) any unreimbursed expenses under Section 5 that were accrued or incurred through the Termination Date, each of (x) and (y) to be paid in cash as soon as practicable and in all events within thirty (30) days following the Termination Date, and (ii) prompt payment or provision (subject to Sections 7(n) and 12(s)(ii) below) of any amounts or benefits then or thereafter due under applicable law or under the then-applicable terms of any applicable written plan, program, agreement, or arrangement of the Company or its affiliates, other than severance plans or policies (any amount or benefit described in this Section 7(i) being an "Accrued Obligation").

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

(i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 50% (on a fully diluted basis) of either (A) the then outstanding shares of Common Stock, taking into account as outstanding for this purpose such Common Stock issuable upon the exercise of options or warrants, the conversion of convertible stock or debt, and the exercise of any similar right to acquire such Common Stock (the "Outstanding Company Common Stock") or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this Agreement, the following acquisitions shall not constitute a Change of

Control: (I) any acquisition by the Company or (i) any entity that directly or indirectly is controlled by, controls or is under common control with the Company and (ii) to the extent provided by the Compensation Committee, any entity in which the Company has a significant equity interest (“Affiliate”) on the Effective Date, (II) any acquisition by any employee benefit plan sponsored or maintained by the Company or any Affiliate, (III) any acquisition which complies with clauses (A), (B) and (C) of subsection (v) of this Section 7(h), or (IV), any acquisition by Executive or any group of persons that include Executive (or any entity controlled by Executive or any group of persons that includes Executive);

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

(iii) the dissolution or liquidation of the Company;

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

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

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

(k) Notice of Termination. No termination of Executive's employment hereunder (other than a termination pursuant to Section 7(a)) by the Company or by Executive (each, a "Party") shall be effective until written notice of termination (the "Notice of Termination") has been given to the other Party hereto in accordance with Section 8. In the case of a termination by the Company Without Cause, such notice shall be given not less than thirty (30) days prior to the Termination Date. In the case of a resignation by Executive without Good Reason, such notice shall be given not less than thirty (30) days prior to the Termination Date. If the Board concludes it is prepared to immediately terminate Executive for Cause (other than due to the conviction of Executive of a felony), the Board shall put Executive on a leave of absence during which time Executive will forfeit his title and responsibilities but will be provided with an opportunity to appear before the Board, at Executive's election and with counsel if he so chooses, to present arguments and evidence on his own behalf, at a date and time, not later than the thirtieth (30<sup>th</sup>) day following the date of delivery of the Notice of Termination, specified by the Board. Following such hearing, the Board, by an affirmative vote of a majority of its members (not to include Executive if Executive is a member of the Board), shall make a final determination within fourteen (14) days after the date of the hearing, that the action or inaction by Executive specified in the Notice of Termination constitutes, or does not constitute, termination for Cause. If the Board determines that Executive is not terminated for Cause, the Board shall take any reasonable steps necessary to reinstate Executive in his prior position, with the same title and responsibilities that Executive held prior to receiving the Notice of Termination for Cause described herein.

(l) Termination Date. "Termination Date" shall mean (i) if Executive's employment hereunder is terminated by Executive's death, the date of Executive's death, (ii) if Executive's employment hereunder is terminated for Cause in accordance with Section 7(c), the date specified in the Notice of Termination, (iii) if Executive's employment hereunder terminates upon expiration of the Employment Term due to notice of non-extension pursuant to Section 2,

the date that the Employment Term expires, (iv) if Executive's employment hereunder is terminated by Executive with Good Reason in accordance with Section 7(d), no later than ten (10) days after the date on which he delivers a Notice of Termination to the Company, and (v) if Executive's employment hereunder is terminated for any other reason, thirty (30) days after the date on which a Notice of Termination is delivered, but not earlier than the expiration of any applicable cure period provided for herein.

(m) Conditions to Severance. Executive's entitlement to payments and benefits under Sections 7(e), 7(f) and 7(g) above (other than Accrued Obligations) shall be (i) conditioned upon Executive's having provided, within sixty (60) days following the termination of Executive's employment, an irrevocable waiver and general release of claims in substantially in the form attached hereto as Exhibit B, that has become effective in accordance with its terms, and (ii) subject to the Executive's not having committed a material breach of the provisions of Sections 9 through 11 of this Agreement that, if curable, has remained uncured for 15 days after the Company has given Executive written notice specifying the breach in reasonable detail and requesting cure, and (iii) if requested by the Company, Executive's resignation, as of the date of such termination of employment or such other date requested, from the Board and all committees thereof (and, if applicable, from the board of directors (and all committees thereof) of any affiliate of the Company).

(n) 280G Provision. In the event that part or all of the consideration, compensation or benefits to be paid to Executive under this Agreement together with the aggregate present value of payments, consideration, compensation and benefits under all other plans, arrangements and agreements applicable to Executive, constitute "excess parachute payments" under Section 280G(b) of the Internal Revenue Code of 1986, as amended (the "Code"), is determined to be subject to an excise tax under Section 4999 of the Code (collectively, the "Parachute Amount"), the amount of excess parachute payments which would otherwise be payable to Executive or for Executive's benefit shall be reduced to the extent necessary so that no amount of the Parachute Amount is subject to an excise tax under Section 4999 of the Code (the "Reduced Amount"); provided that such amounts shall not be so reduced if, without such reduction, Executive would be entitled to receive and retain, on a present-value net-after-tax basis (including, without limitation, after any excise taxes payable under Section 4999 of the Code), an amount of the Parachute Amount which is greater than the amount, on a present-value net-after-tax basis, that Executive would be entitled to retain upon receipt of the Reduced Amount. If the determination made pursuant to this Section 7(l) results in a reduction of the payments that would otherwise be paid to Executive except for the application of this Section 7(l), such reduction in payments shall be first applied to reduce any cash severance payments that Executive would otherwise be entitled to receive hereunder (in the reverse chronological order, and thus with last payment reduced first), and shall thereafter be applied to reduce other payments and benefits in a manner that would not result in subjecting Executive to additional taxation under Section 409A of the Code.

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

The address for any notice to Executive shall be:

his last known home address on file at the Company, with a copy during the Employment Term to Executive at his principal office at the Company

with a copy (which shall not constitute notice) to:

Morrison Cohen LLP  
909 Third Avenue  
New York, NY 10022  
Phone: (212) 735-8833  
Fax: (212) 735-8708  
Attn: Robert M. Sedgwick, Esq.

to the Company:

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

with a copy (which shall not constitute notice) to:

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

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

## Section 9. Covenant Not To Compete.

(a) Executive acknowledges that the services he is to render to the Company are of a special and unusual character, with a unique value to the Company, the loss of which cannot adequately be compensated by damages or an action at law. In view of the unique value to the Companies of the services of Executive for which the Company has contracted hereunder, because of the confidential information to be obtained by, or disclosed to, Executive as herein above set forth, and as a material inducement to the Company to enter into this Agreement and to pay to Executive the compensation stated herein and any additional benefits stated herein, and other good and valuable consideration, Executive covenants and agrees that during the Employment Term and during the "Non-Competition Period," as defined below, Executive shall not, directly or indirectly, enter into the employment of, tender consulting or other services to, acquire any interest in (whether for Executive's own account as an individual proprietor, or as a partner, associate, stockholder, officer, director, trustee or otherwise), or otherwise participate in any business that competes, directly or indirectly, with any of the Companies (i) in the same lines of business in the business process outsourcing industry that the Companies are engaged in at the time Executive's employment is terminated, or if Executive is an employee of any of the Companies, at the time Executive is accused of being in competition with any of the Companies pursuant to this Section 9; (ii) in the provision of the business process outsourcing services provided by the Companies at the time Executive's employment is terminated, or if Executive is an employee of any of the Companies, at the time Executive is accused of being in competition with any of the Companies pursuant to this Section 9; (iii) in the provision of business process outsourcing services that any of the Companies have taken substantial steps to provide to customers at the time Executive's employment is terminated, or if Executive is an employee of any of the Companies, at the time Executive is accused of being in competition with any of the Companies pursuant to this Section 9; or (iv) in the provision of business process outsourcing services that any of the Companies are in the process of marketing to existing or potential clients that any of the Companies are taking measures to retain as clients of the Companies, at the time Executive's employment is terminated, or if Executive is an employee of any of the Companies, at the time Executive is accused of being in competition with any of the Companies pursuant to this Section 9, during the Employment Term. Executive and the Company acknowledge that clauses (ii), (iii) and (iv) in the immediately preceding sentence shall not be deemed or interpreted to narrow or otherwise limit the scope of clause (i) of such sentence. Notwithstanding the foregoing, in the event Executive voluntarily terminates employment other than with Good Reason, Executive shall be restricted from engaging in any business process outsourcing business for one year from the Termination Date. For purposes of this Section 9, the "Non-Competition Period" shall be the one year period following the Termination Date.

(b) Notwithstanding the foregoing, nothing in this Agreement shall prevent (A) the purchase or ownership by Executive of up to two percent (2%) in the aggregate of any class of securities of any entity if such securities (i) are listed on a national securities exchange or



(ii) are registered under Section 12(g) of the Exchange Act; or (B) the direct or indirect ownership of securities of a private company; provided that Executive is only a passive investor in such company (having no role, duty or responsibility whatsoever in the management, operations or direction of such company) and owns no more than five percent (5%) in the aggregate of any securities of such company. If Executive's employment with the Company is terminated for any reason, and after such termination Executive wishes to take any action, including without limitation, taking a position with another company, which action could potentially be deemed a violation of this Section 9, Executive shall have the right, after providing the Board with all relevant information, to request a consent to such action from the Board which consent shall not be unreasonably withheld. The Board shall respond to Executive's request by granting or denying such consent within not more than 30 calendar days from the date the Company receives written notice of such request from Executive. If Executive disagrees with the Board's decision relating to the consent, then the disagreement shall be resolved by arbitration under the provisions of Section 12(g) below, as modified by the following two sentences. A single third-party arbitrator (the "Arbitrator") shall be appointed as promptly as practicable following the date Executive notifies the Company of his disagreement, and the third party Arbitrator shall make a determination with respect to whether Executive's action would constitute a legally valid and enforceable violation of Section 9 within not more than thirty (30) days of his appointment, and such determination shall be binding on all of the parties hereto. The cost of the Arbitrator shall be borne by the Company; provided, however, if the Company substantially prevails in the arbitration, then the cost of the Arbitrator shall be borne by Executive.

#### Section 10. Confidential Information.

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

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

Section 11. Non-Disparagement; Non-Solicit.

(a) Executive shall make no unfavorable, disparaging or negative comment, remark or statement, whether written or oral (a “Disparaging Statement”), about the Company or any of its affiliates, officers, directors, shareholders, consultants, or employees; provided that he may give truthful testimony before a court, governmental agency, arbitration panel, or similar person or body with apparent jurisdiction, or as otherwise required by law or legal process, and may discuss such matters in confidence with Executive’s attorney(s) and other professional advisors. During the foregoing period, the Company and its officers and directors (acting in their capacity as officers and directors of the Company) shall make no Disparaging Statement about Executive; provided that any officer or director may give truthful testimony before a court, governmental agency, arbitration panel, or similar person or body with apparent jurisdiction, or as otherwise required by law or legal process, and may discuss such matters in confidence with their or the Company’s attorney(s) and other professional advisors. Nothing in this Section 11(a) shall be deemed to restrict Executive (or any officers or directors of the Company) from performing their duties to the Company in good faith.

(b) During the Employment Term and for a period of one year following termination of Executive’s employment (i) Executive may not solicit, encourage, or induce or attempt to solicit, encourage, or induce any (A) current employee, marketing agent, or consultant of any of the Companies to terminate his or her employment, agency, or consultancy with any of the Companies or any (B) prospective employee with whom the Company has had discussions or negotiations within six months prior to Executive’s termination of employment not to establish a relationship with any of the Companies, (ii) induce or attempt to induce any current customer to terminate its relationship with any of the Companies or (iii) induce any potential customer with whom the Company has had discussions or negotiations within six months prior to Executive’s termination of employment not to establish a relationship with any of the Companies. Nothing in this Section 11(b) shall be deemed to restrict Executive from performing his duties to the Company in good faith during the Employment Term.

Section 12. Miscellaneous.

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

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

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

(d) Successors and Assigns. This Agreement shall be binding on and inure to the benefit of the Company and (to the extent provided in Section 12(h)) its successors and assigns.

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

(f) Consent to Jurisdiction and Service of Process. Any claim for injunctive relief pursuant to Section 12(k) below shall be instituted exclusively in any Federal court of the Southern District of New York or any state court located in New York County, State of New York, and each party agrees not to assert, by way of motion, as a defense or otherwise, in any such claim, any claim that it is not subject personally to the jurisdiction of such court, that the claim is brought in an inconvenient forum, that the venue of the claim is improper or that this Agreement or the subject matter hereof may not be enforced in or by such court. Each party further irrevocably submits to the jurisdiction of such court in any such claim. Any and all service of process and any other notice in any such claim shall be effective against any party if given personally or by registered or certified mail, return receipt requested, or by any other means of mail that requires a signed receipt, postage prepaid, mailed to such party as herein

provided. Nothing herein contained shall be deemed to affect the right of any party to serve process in any manner permitted by law or to commence legal proceedings or otherwise proceed against any other party in any other jurisdiction.

(g) Dispute Resolution. Any dispute, controversy or other claim, other than claims solely for injunctive relief pursuant to Section 12(k) below, arising out of or relating to this Agreement, Executive's employment with the Company, or the termination of such employment, shall be resolved by binding confidential arbitration, to be held in New York, New York in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. In reaching their decision, the arbitrator(s) shall have no authority (A) to authorize that any party to the arbitration take more than two depositions, (B) to change, modify or disregard any provision of this Agreement, or (C) to base any part of their decision on any common law principles that are inconsistent with the express terms of this Agreement (including, without limitation, common law principles of constructive termination). Executive agrees that he shall not bring any claim or action relating to this Agreement, his employment with the Company, or the termination of such employment against the Company's directors, officers or shareholders and shall not be entitled to any punitive, special or consequential damages in connection with any such claim, dispute or controversy. In connection with any claim or action brought by any of the Companies or any of their respective directors or, officers or shareholders against Executive, no such person shall be entitled to any punitive, special or consequential damages. Any court or arbitrator of competent jurisdiction shall be permitted to award to Executive his costs and expenses (including reasonable attorneys' fees and expenses) incurred in connection with any dispute arising out of or relating to this Agreement, provided that Executive materially prevails in such dispute.

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

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

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

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

(l) Entire Agreement. This Agreement supersedes the Current Employment Agreement as in effect prior to the Effective Date. This Agreement also supersedes any representation, promises or understanding that was made or entered into in connection with negotiating this Agreement. In the event of any inconsistency between this Agreement and the terms of any other plan, program or arrangement of the Company, this Agreement shall govern.

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

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

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

(p) Directors' Slate. Executive's name shall be included on the Company's recommended slate of directors for each stockholders meeting during the Employment Term at which Executive is eligible for reelection to the Board; provided, however, that Executive agrees to consult in good faith with the Board regarding Executive's continued service on the Board if and to the extent the Board determines that prevailing standards of corporate governance provide that it is not appropriate for an officer of the Company to serve on the Board. Executive agrees to tender resignation from the Board upon termination of employment. In the case of Executive's termination for any reason other than by the Company for Cause, if and only if (x) Executive continues to own 4% of the Common Stock and (y) no equity securities of the Company are then listed for trading on a national securities exchange or other quotation or trading system, Executive may, subject to the approval of the Board in its sole reasonable determination, designate an individual to be included on the Company's recommended slate of directors for the next stockholders' meeting at which directors of the Company are to be elected.

(q) Legal Fees. Upon the execution of this Agreement, the Company agrees to promptly pay on behalf of Executive all legal fees and expenses incurred by Executive in connection with the negotiation, drafting, and execution of this Agreement up to a maximum of \$50,000.

(r) Indemnification. The Company shall indemnify and defend Executive to the fullest extent permitted by the law of the State of Company's incorporation and the By-Laws and Certificate of Incorporation of the Company with respect to any claims that may be brought against Executive arising out of any action taken or not taken in Executive's capacity as an officer or director of the Company; provided, that, the Company shall not indemnify and defend Executive with respect to any claims brought against Executive relating to fraudulent or willful misconduct of the Executive, or to other acts as to which indemnification is not allowable under applicable law. Expenses incurred by Executive in defending any claim shall be paid, or reimbursed, by the Company in advance of the final disposition of such claim promptly upon receipt by the Company of an undertaking by or on behalf of Executive to repay such amount if it shall be ultimately determined that Executive is not entitled to be indemnified by the Company. In addition, Executive shall be covered, in respect of Executive's activities as an officer or director of the Company, by the Company's Directors and Officer liability policy or other comparable policies obtained by the Company's successors, to the fullest extent permitted by such policies. Notwithstanding the foregoing, the Company's responsibilities under this

Section 12(r) shall not apply to any claims raised against Executive after the sixth anniversary of his termination of employment. It is intended that any indemnification payment or advancement of expenses made hereunder shall be exempt from Section 409A. Notwithstanding the foregoing, if any indemnification payment or advancement of expenses made hereunder shall be determined to be “deferred compensation” within the meaning of Section 409A, then (i) the amount of the indemnification payment or advancement of expenses during one taxable year shall not affect the amount of the indemnification payments or advancement of expenses during any other taxable year, (ii) the indemnification payments or advancement of expenses must be made on or before the last day of Executive’s taxable year following the year in which the expense was incurred, and (iii) the right to indemnification payments or advancement of expenses hereunder is not subject to liquidation or exchange for another benefit.

(s) Section 409A.

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

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

(iii) Unless the parties to this Agreement otherwise agree in a signed writing, Executive’s employment with the Company shall end on the Termination Date, and Executive shall have no duties after the Termination Date that are inconsistent with his having had a “separation of service” on or before the Termination Date.





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

EXLSERVICE HOLDINGS, INC.

By: /s/ Garen K. Staglin  
Name: Garen K. Staglin  
Title: Chairman

ROHIT KAPOOR

By: /s/ Rohit Kapoor  
Name: Rohit Kapoor

**Outside Activities****1. CA Technologies**

CA Technologies is a NYSE listed software company. Executive is a full time board member of CA Technologies and serves on its Audit and Nominating and Governance Committees. Executive has been a board member since April 2011. This requires Executive to attend scheduled board meetings in person or by telephone. There would also be additional time commitments as and when needed.

**2. Pratham**

Pratham is a not for profit organization dedicated to improving education for the underprivileged children in India. Executive is on the board of the NY chapter of Pratham. This requires Executive to attend 3-4 board meetings during the year (most of which are during off business hours).

**3. ASSOCHAM**

Executive is the Chairman of ASSOCHAM's US Chapter. Executive's time commitments are as and when needed.

**4. Personal Investments**

Executive has made a few personal investments:

- a) ESTEE Advisors - a fund management company. Executive is on their Board of Advisors and spends minimal time on this activity;
- b) One Paper Lane – a technology start-up company that seeks to eliminate paper and streamline processes. Executive is on the board of this privately held company. Time commitment is minimal.
- c) other investments – no real time commitment other than to manage Executive's personal investments.

**Benefits for Rohit Kapoor**

1. The Executive may make use of and be reimbursed for First Class travel on company business. Additionally, once each calendar year during the Employment Term during which Executive spends at least 50% of the calendar year in India, the Company will provide, at its expense, round-trip, business-class air travel between the United States and India for Executive and his immediate family.

2. The Company shall at its expense maintain a term life insurance policy on the life of the Executive in the face amount of Five Hundred Thousand Dollars (US\$500,000) payable to such beneficiaries as Executive may designate; provided that, the Executive does not have any special health risks or conditions that would cause the rate of such life insurance plan to be substantially higher than the average rate for an individual of the same age as the Executive.

3. The Company shall (i) maintain one automobile for use by the Executive and shall pay the costs of an automobile for the Executive in the United States, with lease or loan payments not to exceed \$1,400 per month; (ii) pay directly or shall reimburse the Executive for the cost of insurance and fuel for such automobile; and (iii) provide the Executive with an automobile (Mercedes Benz) in India with a driver and shall pay for all costs, including insurance, repairs and fuel (such fuel payments shall cover the cost of fuel for two automobiles as the Executive uses his own car from time to time for Company business purposes) at a cost not to exceed \$12,000 per annum.

4. Being that the Company has determined that Executive should have personal security while in India, Executive and his family shall be provided with personal security while in India and paid for by the Company consistent with practices and procedures.

5. The Company shall pay the initial and yearly membership fees for The Belvedere Club at The Oberoi Hotel. The fee shall be paid directly to the club. The Company shall provide certain items of furniture, telecom lines and computer hardware necessary to maintain a home office for Executive.

For the avoidance of doubt, the benefits provided pursuant to paragraphs 3, 4 and 5 of this Schedule 6 shall be provided without regard to whether Executive spends at least 50% of the calendar year in India.

6. Once each year during the Term during which the Executive resides in US, the Company will provide, at its expense, round-trip, business-class air travel between the US and India for the Executive and his immediate family. In any given calendar year, Executive shall either receive the air travel benefit provided in paragraph 1 of this Schedule 6 or the air travel benefit provided in this paragraph 6, but not both.

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

8. The Company shall pay for the annual dues for a luncheon club in India for Executive's benefit amounting to US\$1,000 per annum and the sum may be increased marginally year to year. The club membership is in Executive's name (and paid for personally) and will remain as such as the initial fee is avoided.

9. This paragraph 9 shall apply only in the event that Executive and his immediate family have relocated their residence to India. In such event, then during the period of Executive's and his immediate family domicile outside the United States in connection with Company business, the Company shall pay Executive an education allowance equal to the private school tuition of Executive's children through secondary school; provided, however, that such education allowance shall not cover any costs associated with attendance at any post-secondary institution of higher learning.

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**EXHIBIT A**

**PERFORMANCE-BASED RESTRICTED STOCK UNIT AGREEMENT  
[SEE ATTACHED]**

EXLSERVICE HOLDINGS, INC.  
2006 OMNIBUS AWARD PLAN

**AMENDED AND RESTATED**  
**RESTRICTED STOCK UNIT AGREEMENT**

THIS AMENDED AND RESTATED RESTRICTED STOCK UNIT AGREEMENT (the "Agreement"), dated June 10, 2015, but effective as of the 29<sup>th</sup> day of April, 2015 (hereinafter the "Date of Grant") by and between ExlService Holdings, Inc. a Delaware corporation (the "Company"), and Rohit Kapoor (the "Participant").

WHEREAS, the Company has adopted the ExlService Holdings, Inc. 2006 Omnibus Award Plan (the "Plan"), pursuant to which awards of Restricted Stock Units may be granted; and

WHEREAS, the Compensation Committee of the Board of Directors of the Company (the "Committee") has determined that it is in the best interests of the Company and its stockholders to grant to the Participant an award of Restricted Stock Units as provided herein and subject to the terms set forth herein.

NOW, THEREFORE, for and in consideration of the premises and the covenants of the parties contained in this Agreement, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto, for themselves, their successors and assigns, hereby agree as follows:

Section 13. Grant of Restricted Stock Units. The Company hereby grants on the Date of Grant, to the Participant 100,000 Restricted Stock Units (the "Award") on the terms and conditions set forth in this Agreement and as otherwise provided in the Plan. Such Restricted Stock Units shall be credited to a separate account maintained for the Participant on the books of the Company (the "Account"). On any given date, and subject to the provisions of Section 5(b) below, the value of each Restricted Stock Unit comprising the Award shall equal the Fair Market Value of one share of Common Stock. The Award shall vest in accordance with Section 3 and 4 hereof and settle in accordance with Section 5 hereof.

Section 14. Incorporation by Reference, Etc. The provisions of the Plan are hereby incorporated herein by reference. Except as otherwise expressly set forth herein this Agreement shall be construed in accordance with the provisions of the Plan (to the extent that such provisions are consistent with the express terms of the Employment and Non-Competition Agreement, dated as of April 29, 2015, between the Company and the Participant, as from time to time amended in accordance with its terms (the "Employment Agreement")), and any capitalized terms not otherwise defined in this Agreement shall have the definitions set forth in the Plan. The Committee shall have final authority to interpret and construe the Plan and this

Agreement (consistent with the provisions of the Employment Agreement) and to make any and all determinations under them, and its decision shall be binding and conclusive upon the Participant and his legal representative in respect of any questions arising under the Plan or this Agreement.

Section 15. Vesting. The Award shall be one hundred percent (100%) unvested as of the Date of Grant. Except as otherwise provided in the Plan and this Agreement, the Award shall vest in that number of Restricted Stock Units (if any) as determined in accordance with Exhibit A (the “Earned PSUs”) as of the close of business on December 31, 2017 (the “Vesting Date”), provided (subject to Section 4, below) that the Participant remains in continuous service with the Company or any of its subsidiaries through such Vesting Date. The provisions in Section 11(d)(iv) of the Plan with respect to negative discretion shall not apply to this Award.

Section 16. Effect of Termination of Services. (i) Except as otherwise provided below, if the Participant’s employment with the Company terminates prior to the Vesting Date for any reason, all remaining Restricted Stock Units credited to the Account shall be forfeited without further consideration to the Participant.

(ii) Death; Disability. If prior to the occurrence of a Change in Control, the Participant’s employment with the Company terminates prior to the Vesting Date due to (i) the Participant’s Disability, or (ii) the Participant’s death (each as defined in, and determined under, the Employment Agreement), then, except as otherwise provided in Section 4(d), the Participant shall immediately vest in the number of Restricted Stock Units equal to 100,000, multiplied by a fraction (in no event greater than 1), the numerator of which is equal to the sum of (A) the number of days elapsed from January 1, 2015 through and including the date of termination plus (B) 365 and the denominator of which is 1,096. All remaining unvested Restricted Stock Units credited to the Account shall be forfeited without further consideration to the Participant.

(iii) Without Cause; Good Reason. If prior to the occurrence of a Change in Control, the Participant’s employment with the Company terminates prior to the Vesting Date due to (i) the Company’s termination other than for Cause, or (ii) the Participant’s resignation for Good Reason (each as defined in, and determined under, the Employment Agreement), then, except as otherwise provided in Section 4(d), the Participant shall immediately vest in the number of Restricted Stock Units equal to the number of Restricted Stock Units determined in accordance with Exhibit B (based on the Company’s Average Stock Price as of the date of the termination of employment), multiplied by a fraction (in no event greater than 1), the numerator of which is equal to the sum of (A) the number of days elapsed from January 1, 2015 through and including the date of termination plus (B) 365 and the denominator of which is 1,096. All remaining unvested Restricted Stock Units credited to the Account shall be forfeited without further consideration to the Participant.

(iv) Change in Control. If a Change in Control occurs while the Restricted Stock Units are still outstanding, then the Participant shall be deemed to have earned the number of Restricted Stock Units (the "Earned CIC RSUs") determined in accordance with Exhibit A (based on the Company's Average Stock Price as of the date of the Change in Control). All remaining unvested Restricted Stock Units credited to the Account shall be forfeited without further consideration to the Participant. As of the occurrence of such Change in Control, the Earned CIC RSUs shall convert into solely service-based Restricted Stock Units which shall cliff vest on the Vesting Date, provided that the Participant remains in continuous service with the Company or any of its subsidiaries through such date; provided, further, that if the Participant's employment with the Company terminates upon or after the occurrence of such Change in Control and prior to the Vesting Date, due to (i) the Company's termination other than for Cause, (ii) the Participant's Disability, (iii) the Participant's death or (iv) the Participant's resignation with Good Reason (each as defined in, and determined under, the Employment Agreement), then the Participant shall immediately vest as of the date of termination in a number of Restricted Stock Units (the "Qualifying Termination RSUs") equal to the product of (x) the Earned CIC RSUs multiplied by (y) a fraction (in no event greater than 1), the numerator of which is equal to the sum of (A) the number of days elapsed from January 1, 2015 through and including the date of termination plus (B) 365 and the denominator of which is 1,096; provided, further, that if the Committee has not made a provision for the substitution, assumption, exchange or other continuation of the Award in connection with a Change in Control, then the Earned CIC RSUs shall become fully vested immediately prior to the Change in Control. In addition, if the Participant's employment is involuntarily terminated by the Company other than for Cause (and other than due to Disability) prior to occurrence of the Change in Control, and if it is reasonably demonstrated by the Participant that such termination of employment (x) was at the request of a third party who has taken steps reasonably calculated to effect a Change in Control or (y) otherwise arose in connection with or anticipation of a Change in Control, then, in addition to the number of Restricted Stock Units that vest in accordance with Section 4(b) or Section 4(c), as applicable, the Participant shall vest in an additional number of Restricted Stock Units determined as the excess, if any, of (A) the number of Qualifying Termination RSUs (determined as if the Participant had remained employed with the Company through the date that a Change in Control occurs and incurred such termination immediately thereafter), over (b) the number of Restricted Stock Units that vested in accordance with Section 4(b) or Section 4(c), as applicable.

Section 17. Terms.

(i) Settlement. As soon as practicable following the applicable Vesting Date (which term shall, for purposes of this Section 5 only, include as applicable the date of any Change in Control, or any termination of employment, that results in vesting of Restricted Stock Units pursuant to Section 4), the Company shall settle the portion of the Award that is vested as of such date and shall therefore (i) issue and deliver to the Participant one share



of Common Stock for each Restricted Stock Unit subject to the Award that has vested (the “RSU Shares”), with any fractional shares paid out in cash (and, upon such settlement, the Restricted Stock Units shall cease to be credited to the Account) and (ii) enter the Participant’s name as a stockholder of record with respect to the RSU Shares on the books of the Company. The Committee shall make all determinations with respect to the Performance-Based RSUs as soon as administratively practicable after the applicable Vesting Date, such that settlement of the earned and vested Restricted Stock Units shall be made within the applicable short-term deferral period for purposes of Section 409A of the Code.

(ii) Dividend Equivalents. If on any date that Restricted Stock Units remain credited to the Account, dividends or other distributions are made by the Company on outstanding shares of its Common Stock (“Shares”) (each, a “Dividend Payment Date”), then the Participant’s Account shall, as of each such Dividend Payment Date, be credited with an amount (each such amount, a “Dividend Equivalent Amount”) equal to the product of (i) the number of Restricted Stock Units in the Account as of the Dividend Payment Date and (ii) the per Share cash amount of such dividend (or, in the case of a dividend payable in Shares or other property, the per Share equivalent cash value of such dividend as determined in good faith by the Committee). On the applicable Vesting Date, in connection with the settlement and delivery of RSU Shares as contemplated by Section 5(a), the Participant shall be entitled to receive a payment, without interest, of an amount in cash equal to the accumulated Dividend Equivalent Amounts in respect of the RSU Shares so delivered.

(iii) Taxes and Withholding. Upon the settlement of the Award in accordance with Section 5(a) hereof, the Participant shall recognize taxable income in respect of the Award, and the Company shall report such taxable income to the appropriate taxing authorities in respect of the Award as it determines to be necessary and appropriate. Upon the settlement of the Award in RSU Shares, the Participant shall be required as a condition of such settlement to pay to the Company by check or wire transfer the amount of any income, payroll, or social tax withholding that the Company determines is required; provided that the Participant may elect to satisfy such tax withholding obligation by having the Company withhold from the settlement that number of RSU Shares having a Fair Market Value equal to the amount of such withholding; provided, further, that the number of RSU Shares that may be so withheld by the Company shall be limited to that number of RSU Shares having an aggregate Fair Market Value on the date of such withholding equal to the aggregate amount of the Participant’s income, payroll and social tax liabilities based upon the applicable minimum withholding rates.

(iv) Restrictions. The Award granted hereunder may not be sold, pledged or otherwise transferred (other than by will or the laws of descent and distribution) and may not be subject to lien, garnishment, attachment or other legal process. The Participant acknowledges and agrees that, with respect to each Restricted Stock Unit credited to his Account, he has no voting rights with respect to the Company unless and until each such Restricted Stock Unit is settled in RSU Shares pursuant to Section 5(a) hereof.

(v) Rights as a Stockholder. The Participant shall not be deemed for any purpose to be the owner of any shares of Common Stock underlying the Restricted Stock Units unless, until and to the extent that (i) the Company shall have issued and delivered to the Participant the shares of Common Stock underlying the Restricted Stock Units and (ii) the Participant's name shall have been entered as a stockholder of record with respect to such shares of Common Stock on the books of the Company. Thereafter, the Participant shall be the record owner of the RSU Shares settled upon such applicable date unless and until such RSU Shares are sold or otherwise disposed of, and as record owner shall be entitled to all rights of a common stockholder of the Company, including, without limitation, voting rights, if any, with respect to the RSU Shares.

Section 18. Miscellaneous.

(i) General Assets. All amounts credited to the Account under this Agreement shall continue for all purposes to be part of the general assets of the Company. The Participant's interest in the Account shall make the Participant only a general, unsecured creditor of the Company.

(ii) Notices. All notices, demands and other communications provided for or permitted hereunder shall be made in writing and shall be by registered or certified first-class mail, return receipt requested, telecopier, courier service or personal delivery:

if to the Company:

ExlService Holdings, Inc.  
280 Park Avenue, 38th Floor  
New York, NY 10017  
Attention: General Counsel

if to the Participant, at the Participant's last known address on file with the Company.

All such notices, demands and other communications shall be deemed to have been duly given when delivered by hand, if personally delivered; when delivered by courier, if delivered by commercial courier service; five business days after being deposited in the mail, postage prepaid, if mailed; and when receipt is mechanically acknowledged, if telecopied.

Section 19. Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, and each other provision of this Agreement shall be severable and enforceable to the extent permitted by law.

Section 20. No Rights to Employment. Nothing contained in this Agreement shall be construed as giving the Participant any right to be retained, in any position, as an employee, consultant or director of the Company or its Affiliates or shall interfere with or restrict in any way the right of the Company or its Affiliates, which are hereby expressly reserved, to remove, terminate or discharge the Participant at any time for any reason whatsoever.

Section 21. Beneficiary. The Participant may file with the Committee a written designation of a beneficiary on such form as may be prescribed by the Committee and may, from time to time, amend or revoke such designation. If no designated beneficiary survives the Participant, the Participant's estate shall be deemed to be the Participant's beneficiary.

Section 22. Successors. The terms of this Agreement shall be binding upon and inure to the benefit of the Company and its successors and assigns, and to the Participant and the beneficiaries, executors, administrators, heirs and successors of the Participant.

Section 23. Entire Agreement. This Agreement and the Plan and the Employment Agreement contain the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein and supersede all prior communications, representations and negotiations in respect thereto (including the original Restricted Stock Unit Agreement between the Participant and the Company, dated April 29, 2015). No change, modification or waiver of any provision of this Agreement shall be valid unless the same is in writing and signed by the parties hereto.

Section 24. Bound by Plan. By signing this Agreement, the Participant acknowledges that he has received a copy of the Plan and has had an opportunity to review the Plan and agrees to be bound by all the terms and provisions of the Plan except to the extent otherwise provided in this Agreement.

Section 25. Governing Law. This Agreement shall be construed and interpreted in accordance with the laws of the State of Delaware without regard to principles of conflicts of law thereof, or principles of conflicts of laws of any other jurisdiction which could cause the application of the laws of any jurisdiction other than the State of Delaware.

Section 26. JURY TRIAL WAIVER. THE PARTIES EXPRESSLY AND KNOWINGLY WAIVE ANY RIGHT TO A JURY TRIAL IN THE EVENT ANY ACTION ARISING UNDER OR IN CONNECTION WITH THIS AGREEMENT IS LITIGATED OR HEARD IN ANY COURT.

Section 27. Electronic Delivery and Acceptance. The Company has decided to deliver documents related to current or future participation in the Plan by electronic means and to request Participant's consent to participate in the Plan by electronic means. Subject to the second sentence of Section 11 above, Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through the current plan administrator's on-line system, or any other on-line system or electronic means that the Company may decide, in its sole discretion, to use in the future.

Section 28. Headings. The headings of the Sections hereof are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part, of this Agreement.

Section 29. Signature in Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. **PLEASE NOTE:** Participant's designation/election via the current plan administrator's website that Participant has read and accepted the terms of this Agreement and the terms and conditions of the Plan is considered Participant's electronic signature and Participant's express consent to this Agreement and the terms and conditions set forth in the Plan.

*[Remainder of page intentionally left blank; signature page to follow]*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

ExlService Holdings, Inc.

\_\_\_\_\_  
By:  
Title:

\_\_\_\_\_  
Rohit Kapoor

**Exhibit A**

The Company's Average Stock Price will be computed. The Participant shall earn from 0% to 200% of the Restricted Stock Units based on the Average Stock Price achieved, pursuant to the chart below:

<u>Average Stock Price</u>	<u>Vested or Earned Percentage</u>
\$50.00 or more	200%
\$37.50	100%
Less than \$37.50	0%

The percentage of Restricted Stock Units earned will be determined based on straight-line interpolation to the extent the Company's Average Stock Price falls between \$37.50 and \$50.00. No Restricted Stock Units shall be earned if the Company's Average Stock Price is less than \$37.50. In the event that, at any time after April 29, 2015, any of the events described in Section 13 of the Plan occurs, equitable adjustments as determined by the Committee shall be made in the Average Stock Price targets listed above so that the difficulty of attaining the targets is neither increased nor decreased.

"The Company's Average Stock Price", when used with respect to any date other than a date on which a Change in Control occurs, shall mean the average Fair Market Value of the Common Stock over the 60 calendar days that immediately precede such date. "The Company's Average Stock Price", when used with respect to a date on which a Change in Control occurs, shall mean Fair Market Value on such date.

**Exhibit B**

The Company's Average Stock Price (as determined under Exhibit A) will be computed.

1. If termination of employment occurs **prior to** January 1, 2016, then the Participant shall earn from 0% to 200% of the Restricted Stock Units based on the Average Stock Price achieved, pursuant to the chart below:

<u>Average Stock Price</u>	<u>Vested or Earned Percentage</u>
\$50.00 or more	200%
\$37.50	100%
Less than \$37.50	0%

The percentage of Restricted Stock Units earned will be determined based on straight-line interpolation to the extent the Company's Average Stock Price falls between \$37.50 and \$50.00. No Restricted Stock Units shall be earned if the Company's Average Stock Price is less than \$37.50.

2. If termination of employment occurs **on or after** January 1, 2016, then the Participant shall earn from 0% to 200% of the Restricted Stock Units based on the Average Stock Price achieved, pursuant to the chart below:

<u>Average Stock Price</u>	<u>Vested or Earned Percentage</u>
"Adj Max Price" or more	200%
"Adj Min Price"	100%
Less than "Adj Min Price"	0%

The "Adj Max Price" shall be determined by straight-line interpolation between \$35.40 and \$50.00, based on the portion of the two-year period (1/1/16-12/31/17) elapsed through the date of termination of employment. The "Adj Min Price" shall be determined by straight-line interpolation between \$31.23 and \$37.50, based on the portion of the two-year period (1/1/16-12/31/17) elapsed through the date of termination of employment. The percentage of Restricted Stock Units earned will be determined based on straight-line interpolation to the extent the Company's Average Stock Price falls between the Adj Min Price and the Adj Max Price. No Restricted Stock Units shall be earned if the Company's Average Stock Price is less than the Adj Min Price.

For example, if the date of termination of employment is July 1, 2016, and the Company's Average Stock Price on July 1, 2016 was \$35.30, then:

- the Adj Max Price would be \$39.05;
- the Adj Min Price would be \$32.80 (and no Restricted Stock Units would be earned if the Company's Average Stock Price were less than \$32.80); and
- 140% of the Restricted Stock Units would be earned.

3. In the event that, at any time after April 29, 2015, any of the events described in Section 13 of the Plan occurs, equitable adjustments as determined by the Committee shall be made in the Average Stock Price targets listed above so that the difficulty of attaining the targets is neither increased nor decreased.

4. For the avoidance of doubt, the number of Restricted Stock Units earned as determined in accordance with the foregoing provisions of this Exhibit B shall then be multiplied by the relevant fraction as contemplated by Section 4(c).



EXHIBIT B

RELEASE OF CLAIMS

As used in this Release of Claims (this "Release"), the term "claims" will include all claims, covenants, warranties, promises, undertakings, actions, suits, causes of action, proceedings, obligations, debts, accounts, attorneys' fees, judgments, losses, and liabilities, of whatsoever kind or nature, in law, in equity, or otherwise, except as otherwise provided below. Capitalized terms used but not defined in this Release will have the meanings given to them in the Employment Agreement dated as of April , 2015, between ExlService Holdings, Inc. (the "Company") and Rohit Kapoor (my "Employment Agreement").

For and in consideration of the payments and benefits (other than Accrued Obligations) provided to me pursuant to Section 7 of the Employment Agreement ("Severance Benefits"), and other good and valuable consideration, I, for and on behalf of myself and my executors, heirs, administrators, representatives, and assigns, hereby agree to release and forever discharge the Company and each of its direct and indirect parent and subsidiary entities, and all of their respective predecessors, successors, and past, current, and future parent entities, affiliates, subsidiary entities, investors, directors, shareholders, members, officers, general or limited partners, employees, attorneys, agents, and representatives, and the employee benefit plans in which I am or have been a participant by virtue of my employment with or service to the Company (collectively, the "Company Releasees"), from any and all claims that I have or may have had against the Company Releasees based on any events or circumstances arising or occurring on or prior to the date hereof, including without limitation those arising directly or indirectly out of, relating to, or in any other way involving in any manner whatsoever my employment by or service to the Company or the termination thereof, including without limitation any and all claims arising under federal, state, or local laws relating to employment, including without limitation claims of wrongful discharge, breach of express or implied contract, fraud, misrepresentation, defamation, intentional infliction of emotional distress, whistleblowing, or liability in tort, and claims of any kind that may be brought in any court or administrative agency, and any related claims for attorneys' fees and costs, including, without limitation, claims under Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. Section 2000, et seq.; the Americans with Disabilities Act, as amended, 42 U.S.C. § 12101 et seq.; the Rehabilitation Act of 1973, as amended, 29 U.S.C. § 701 et seq.; the Civil Rights Act of 1866, and the Civil Rights Act of 1991; 42 U.S.C. Section 1981, et seq.; the Age Discrimination in Employment Act, as amended, 29 U.S.C. Section 621, et seq. (the "ADEA"); the Equal Pay Act, as amended, 29 U.S.C. Section 206(d); regulations of the Office of Federal Contract Compliance, 41 C.F.R. Section 60, et seq.; the Family and Medical Leave Act, as amended, 29 U.S.C. § 2601 et seq.; the Fair Labor Standards Act of 1938, as amended, 29 U.S.C. § 201 et seq.; the Employee Retirement Income Security Act, as amended, 29 U.S.C. § 1001 et seq.; and any similar state or local law. I agree further that this Release may be pleaded as a full defense to any claim that is

covered by this Release (collectively, "Covered Claims") and that is raised in any action, suit, arbitration, or other proceeding that is or may be initiated, prosecuted, or maintained by me or my descendants, dependents, heirs, executors, administrators, or assigns. By signing this Release, I acknowledge that I intend to waive and release all rights known or unknown that are based on any Covered Claim that I may have against the Company Releasees under these and any other laws.

I acknowledge and agree that as of the date I execute this Release, I have either (x) not filed any Covered Claim against any of the Company Releasees before any local, state, federal, or foreign agency, court, arbitrator, mediator, arbitration or mediation panel, or other body (each individually a "Proceeding") or (y) if I have filed any such Covered Claim I will promptly withdraw it. I (i) acknowledge that I will not, on or after the date I execute this Release, initiate or cause to be initiated on my behalf any Proceeding that is based on any Covered Claim, and will not (except as required by law) participate in any Proceeding to the extent that it is based on any Covered Claim; and (ii) waive any right that I may have to benefit in any manner from any relief (whether monetary or otherwise) arising out of any Proceeding and attributable to any Covered Claim, including any Proceeding conducted by the Equal Employment Opportunity Commission ("EEOC"). I understand that, by executing this Release, I will be limiting the availability of certain remedies that I may have against the Company and limiting also my ability to pursue certain claims against the Company Releasees.

By executing this Release, I specifically release all Covered Claims relating to my employment and its termination under ADEA, a federal statute that, among other things, prohibits discrimination on the basis of age in employment and employee benefit plans.

Notwithstanding the generality of the foregoing, I do not release (i) claims that arise under, or are preserved by, Section 7 of the Employment Agreement; (ii) claims based on events occurring on or after the date that I execute this Release; (iii) claims against any Company Releasee other than the Company and its affiliates that do not arise out of, or relate to, my employment with the Company or the termination thereof, (iv) claims I have solely in my capacity as a direct or indirect equity holder in any entity, (v) claims for indemnification with respect to services performed prior to the termination of my employment, whether pursuant to a contract, document, instrument, or law, or (vi) claims that cannot be waived by law. Nothing in this Release shall prevent me from (i) initiating or causing to be initiated on my behalf any claim against the Company before any local, state, or federal agency, court, or other body challenging the validity of the waiver of my claims under the ADEA (but no other portion of such waiver); or (ii) initiating or participating in an investigation or proceeding conducted by the EEOC.

I acknowledge that I have been given at least [21]/[45]<sup>2</sup> days in which to consider this Release. I acknowledge further that the Company has advised me to consult with an attorney of my choice before signing this Release, and I have had sufficient time to consider the terms of this Release. I represent and acknowledge that if I execute this Release before [21]/[45] days have elapsed, I do so knowingly, voluntarily, and upon the advice and with the approval of my legal counsel (if any), and that I voluntarily waive any remaining consideration period.

I understand that after executing this Release, I have the right to revoke it within seven days after its execution. I understand that this Release will not become effective and enforceable unless the seven-day revocation period passes and I do not revoke the Release in writing. I understand that this Release may not be revoked after the seven-day revocation period has passed. I understand also that any revocation of this Release must be made in writing and delivered to the Company at its principal place of business within the seven-day period.

This Release will become effective, irrevocable, and binding on the eighth day after its execution, so long as I have not timely revoked it as set forth above. I understand and acknowledge that I will not be entitled to the Severance Benefits unless this Release is effective on or before the date that is 60 days following my Termination Date.

I hereby agree to waive any and all claims to re-employment with the Company or any of its affiliates and affirmatively agree not to seek further employment with the Company or any of its affiliates.

The provisions of this Release will be binding upon my heirs, executors, administrators, legal representatives, and assigns. If any provision of this Release will be held by any court of competent jurisdiction to be illegal, void, or unenforceable, such provision will be of no force or effect. The illegality or unenforceability of such provision, however, will have no effect upon and will not impair the enforceability of any other provision of this Release.

This Release will be governed in accordance with the laws of the State of New York, without reference to the principles of conflicts of law. Any dispute or claim arising out of or relating to this Release or claim of breach hereof will be resolved in accordance with the provisions of Section 12(g) of the Employment Agreement. By execution of this Release, I am waiving any right to trial by jury in connection with any suit, action, or proceeding under or in connection with this Release.

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Rohit Kapoor

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DATE

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<sup>2</sup> Note to Draft: To be selected based on whether applicable termination was “in connection with an exit incentive or other employment termination program” (as such phrase is defined in the Age Discrimination in Employment Act of 1967).

## SECTION 302 CERTIFICATION

I, Rohit Kapoor, certify that:

1. I have reviewed this quarterly report of ExlService Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2015

/s/ ROHIT KAPOOR

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**Rohit Kapoor**  
**Vice Chairman and Chief Executive Officer**

## SECTION 302 CERTIFICATION

I, Vishal Chhibbar, certify that:

1. I have reviewed this quarterly report of ExlService Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2015

/s/ VISHAL CHHIBBAR

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**Vishal Chhibbar**  
**Executive Vice President and**  
**Chief Financial Officer**

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ExlService Holdings, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rohit Kapoor, Vice Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ROHIT KAPOOR

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**Rohit Kapoor**  
**Vice Chairman and**  
**Chief Executive Officer**

Date: July 30, 2015

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ExlService Holdings, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vishal Chhibbar, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ VISHAL CHHIBBAR

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**Vishal Chhibbar**  
**Executive Vice President and**  
**Chief Financial Officer**

Date: July 30, 2015