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

FORM 10-Q

(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, 2010

OR

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

FOR THE TRANSITION PERIOD ______ FROM TO ______

COMMISSION FILE NUMBER 001-33089

EXLSERVICE HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	**82-0572194**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
280 PARK AVENUE, 38th FLOOR, NEW YORK, NEW YORK	**10017**
(Address of principal executive offices)	**(Zip code)**

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

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 31, 2010, there were 29,226,181 shares of the registrant's common stock outstanding (excluding 252,502 shares held in treasury and 264,252 shares of restricted stock), par value $0.001 per share.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EXLSERVICE HOLDINGS, INC.

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

	June 30, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 88,838	$ 132,215
Short-term investments	2,518	4,009
Restricted cash	294	65
Accounts receivable, net of allowance for doubtful accounts of $403 at June 30, 2010 and $262 at December 31, 2009	41,392	34,856
Deferred tax assets, net	5,933	4,872
Advance income-tax, net	1,564	—
Prepaid expenses and other current assets	5,018	5,529
Total current assets	145,557	181,546
Fixed assets, net of accumulated depreciation of $42,526 at June 30, 2010 and $35,812 at December 31, 2009	28,981	23,964
Restricted cash	7,138	3,895
Deferred tax assets, net	7,944	8,482
Intangible assets, net of amortization	16,615	627
Goodwill	48,018	19,619
Other assets	11,906	11,487
Total assets	$ 266,159	$ 249,620
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 3,663	$ 5,345
Deferred revenue	6,807	4,745
Accrued employee cost	15,465	16,020
Income taxes payable	—	543
Accrued expenses and other current liabilities	12,770	11,674
Total current liabilities	38,705	38,327
Non-current liabilities	7,167	5,575
Total liabilities	45,872	43,902
Commitments and contingencies		
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, 29,461,594 shares issued and 29,209,092 shares outstanding as of June 30, 2010 and 29,278,103 shares issued and 29,031,073 shares outstanding as of December 31, 2009	29	29
Additional paid-in capital	129,518	124,493
Retained earnings	96,166	85,674
Accumulated other comprehensive loss	(4,377)	(3,515)
	221,336	206,681
Less: 252,502 shares as of June 30, 2010 and 247,030 shares as of December 31, 2009, held in treasury, at cost	(1,069)	(976)
ExlService Holdings, Inc. stockholders' equity	220,267	205,705
Noncontrolling interest	20	13
Total stockholders' equity	220,287	205,718
Total liabilities and stockholders' equity	$ 266,159	$ 249,620

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,	
	2010	2009	2010	2009
Revenues	$ 60,639	$ 42,385	$ 115,128	$ 83,371
Cost of revenues (exclusive of depreciation and amortization)	37,447	25,827	68,932	50,183
Gross profit	23,192	16,558	46,196	33,188
Operating expenses:				
General and administrative expenses	9,464	7,634	18,769	14,367
Selling and marketing expenses	4,599	3,340	8,749	6,524
Depreciation and amortization	3,857	2,789	6,930	5,219
Total operating expenses	17,920	13,763	34,448	26,110
Income from continuing operations	5,272	2,795	11,748	7,078
Other income/(expense):				
Foreign exchange gain/(loss)	903	(1,710)	1,509	(3,019)
Interest and other income, net	314	276	732	587
Income from continuing operations before income taxes	6,489	1,361	13,989	4,646
Income tax provision	1,620	109	3,497	372
Income from continuing operations	4,869	1,252	10,492	4,274
Loss from discontinued operations, net of taxes	—	—	—	(139)
Net income	$ 4,869	$ 1,252	$ 10,492	$ 4,135
Earnings per share:				
Basic	$ 0.17	$ 0.04	$ 0.36	$ 0.14
Diluted	$ 0.16	$ 0.04	$ 0.35	$ 0.14
Weighted-average number of shares used in computing earnings per share:				
Basic	29,231,812	28,906,052	29,181,036	28,874,795
Diluted	30,201,092	29,159,547	30,180,283	29,119,785

See accompanying notes

EXLSERVICE HOLDINGS, INC.

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

	Six months ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income	$ 10,492	$ 4,135
Loss from discontinued operations, net of taxes	—	139
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,930	5,219
Share-based compensation expense	4,231	3,513
Non-employee stock options	3	86
Unrealized foreign exchange gain	(23)	(998)
Deferred income taxes	(2,444)	(1,122)
Noncontrolling interest	7	—
Change in operating assets and liabilities (net of effect of acquisitions):		
Restricted cash	(3,469)	(2,472)
Accounts receivable	(5,547)	2,981
Prepaid expenses and other current assets	(388)	885
Accounts payable	224	244
Deferred revenue	(1,068)	—
Accrued employee costs	(1,446)	(5,119)
Accrued expenses and other liabilities	1,076	(1,843)
Income taxes payable	(2,059)	(144)
Other assets	438	1,097
Net cash provided by operating activities	6,957	6,601
Cash flows from investing activities:		
Purchase of fixed assets	(9,991)	(6,785)
Business acquisition (net of cash acquired)	(42,135)	—
Purchase of short-term investments	(335)	—
Proceeds from redemption of short-term investments	1,843	153
Proceeds from sale of discontinued operations	—	1,448
Net cash used for investing activities	(50,618)	(5,184)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(87)	(55)
Proceeds from exercise of stock options	791	179
Acquisition of treasury stock	(93)	(73)
Net cash provided by financing activities	611	51
Effect of exchange rate changes on cash and cash equivalents	(327)	649
Net increase/(decrease) in cash and cash equivalents	(43,377)	2,117
Cash and cash equivalents, beginning of period	132,215	112,174
Cash and cash equivalents, end of period	$ 88,838	$ 114,291

See accompanying notes

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010
(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 outsourcing services and transformation services. The Company’s clients are located principally in the United States and the United Kingdom.

Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with 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 generally accepted accounting principles 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, 2009.

The unaudited interim consolidated financial statements reflect all adjustments (of a normal and recurring nature) which management considers necessary for a fair presentation of such statements for these periods. 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.

The non-controlling interest represents the minority partner’s interest in the operation of exlService.com (India) Private Limited (“Exl India”) and the profits associated with the minority partner’s interest in those operations, in the unaudited consolidated balance sheet and unaudited consolidated statement of income, respectively. The non-controlling partner’s interest in the operations for the three and six months ended June 30, 2010 was insignificant and is included under the general and administrative expenses in the unaudited consolidated statements of income.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2010
(Unaudited)
(In thousands, except share and per share amounts)

Use of Estimates

The preparation of the unaudited consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited consolidated financial statements and the unaudited consolidated statements of income during the reporting period. Estimates are based upon management's best assessment of the current business environment. Actual results could differ from those estimates. The significant estimates and assumptions that affect the financial statements include, but are not limited to, allowance for doubtful receivables, future obligations under 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, recoverability of long-term assets including goodwill and intangibles, and estimates to complete fixed price contracts.

Revenue Recognition

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

Revenues under time-and-material contracts are recognized as the services are performed. Revenues are recognized on cost-plus contracts on the basis of contractually agreed direct and indirect costs incurred on a client contract plus an agreed upon profit mark-up. Revenues are recognized on unit-price based contracts based on the number of specified units of work (such as the number of e-mail responses) delivered to a client. Such revenues are recognized as the related services are provided in accordance with the client contract. When the terms of the client contract specify service level parameters that must be met (such as turnaround time or accuracy), we monitor such service level parameters to determine if any service credits or penalties have been incurred. Revenues are recognized net of any service credits that are due to a client. We have experienced minimal service credits and penalties to date.

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

Revenues are recognized on fixed-price contracts using the proportional performance method. We estimate the proportional performance of a contract by comparing the actual number of hours or days worked to the estimated total number of hours or days required to complete each engagement. The use of the proportional performance method requires significant judgment relative to estimating the number of hours or days required to complete the contracted scope of work, including assumptions and estimates relative to the length of time to complete the project and the nature and complexity of the work to be performed. We regularly monitor our estimates for completion of a project and record changes in the period in which a change in an estimate is determined. If a change in an estimate results in a projected loss on a project, such loss is recognized in the period in which it is first identified.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2010
(Unaudited)
(In thousands, except share and per share amounts)

Revenues on contingent fee based contracts are recognized when the related contingency has been met to the client's satisfaction.

Recent Accounting Pronouncements

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

In September 2009, the FASB issued Update No. 2009-13, "*Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force*" ("ASU 2009-13"). It updates the existing multiple-element revenue arrangements guidance currently included under ASC topic 605-25, which originated primarily from the guidance in EITF Issue No. 00-21, "*Revenue Arrangements with Multiple Deliverables*." The revised guidance primarily provides two significant changes: (1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and (2) eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. ASU 2009-13 will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company has chosen to adopt the new guidance from January 1, 2011. Currently the Company does not expect there to be any impact from the adoption of ASU 2009-13 as the number of multiple-deliverable revenue arrangements are insignificant.

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.

Any cash or in-kind dividends declared, if any, with respect to unvested shares of restricted stock and restricted stock units are withheld by the Company and paid to the holder of such shares of restricted stock and restricted stock units, without interest, only if and when such shares of restricted stock and restricted stock units vest. Any unvested shares of restricted stock and restricted stock units are immediately forfeited without consideration upon the termination of holder's employment with the Company or its affiliates. Accordingly, the Company's unvested restricted stock and restricted stock units do not include non-forfeitable rights to dividends or dividend equivalents and are therefore not considered as participating securities for purposes of earnings per share calculations pursuant to the two-class method. However, the Company's vested restricted stock units against

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2010
(Unaudited)
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which the underlying common stock has not been issued, contain non-forfeitable rights to dividends or dividend equivalents and are therefore, after vesting, considered as participating securities for the purposes of computing basic earnings per share pursuant to the two-class method. Application of this treatment had an insignificant effect on the computation of basic earnings per share.

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Numerators:				
Net income :				
Continuing operations	$ 4,869	$ 1,252	$ 10,492	$ 4,274
Discontinued operations	—	—	—	(139)
	$ 4,869	$ 1,252	$ 10,492	$ 4,135
Denominators:				
Basic weighted average common shares outstanding	29,231,812	28,906,052	29,181,036	28,874,795
Dilutive effect of share-based awards	969,280	253,495	999,247	244,990
Diluted weighted average common shares outstanding	30,201,092	29,159,547	30,180,283	29,119,785
Weighted average common shares considered anti-dilutive in computing diluted earnings per share	810,843	3,611,951	879,989	3,357,512

4. Segment Information

The Company is organized around its outsourcing services and transformation services segments. The Company’s recent acquisitions of the American Express Global Travel Service Center (“GTSC”) and Professional Data Management Again, Inc. (“PDMA”) are classified as part of the outsourcing services segment.

The chief operating decision maker generally reviews financial information at the consolidated statement of income level but does not review any information except for revenues and cost of revenues of the individual segments. Therefore, the Company does not allocate or evaluate depreciation, amortization, interest expense or income, capital expenditures and income taxes to its operating segments. Consequently, it is not practical to show assets, capital expenditures, depreciation or amortization by segment.

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June 30, 2010
(Unaudited)
(In thousands, except share and per share amounts)

Revenues and cost of revenues for each of the three months ended June 30, 2010 and 2009 for the Company's outsourcing services and transformation services segments, respectively, are as follows:

	Three months ended June 30, 2010			Three months ended June 30, 2009		
	Outsourcing Services	Transformation Services	Total	Outsourcing Services	Transformation Services	Total
Revenues	$ 46,560	$ 14,079	$60,639	$ 34,507	$ 7,878	$42,385
Cost of revenues (exclusive of depreciation and amortization)	28,601	8,846	37,447	20,058	5,769	25,827
Gross profit	$ 17,959	$ 5,233	$23,192	$ 14,449	$ 2,109	$16,558
Operating expenses			17,920			13,763
Other income/(expense)			1,217			(1,434)
Income tax provision			1,620			109
Net income			$ 4,869			$ 1,252

Revenues and cost of revenues for each of the six months ended June 30, 2010 and 2009 for the Company's outsourcing services and transformation services segments, respectively, are as follows:

	Six months ended June 30, 2010			Six months ended June 30, 2009		
	Outsourcing Services	Transformation Services	Total	Outsourcing Services	Transformation Services	Total
Revenues	$ 88,150	$ 26,978	$115,128	$ 67,900	$ 15,471	$83,371
Cost of revenues (exclusive of depreciation and amortization)	52,180	16,752	68,932	38,319	11,864	50,183
Gross profit	$ 35,970	$ 10,226	$ 46,196	$ 29,581	$ 3,607	$33,188
Operating expenses			34,448			26,110
Other income/(expense)			2,241			(2,432)
Income tax provision			3,497			372
Income from continuing operations			10,492			4,274
Loss from discontinued operations, net of taxes			—			(139)
Net income			$ 10,492			$ 4,135

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2010
(Unaudited)
(In thousands, except share and per share amounts)

5. Business Combinations, Goodwill and Intangible Assets

On March 1, 2010, we acquired the operations of the GTSC, a business unit of American Express located in Gurgaon, India, that provides the travel-related business process outsourcing services of American Express. The purchase price of the transaction, which was paid in cash, was approximately $29,122.

On May 1, 2010, the company acquired a 100% stake in PDMA, maker of the LifePRO® insurance policy administration system used by approximately 40 life, health and annuity insurers globally. The purchase consideration for PDMA, which was paid in cash, was approximately $14,052 (including cash acquired of $1,039), net of working capital adjustments.

The Company made a preliminary allocation of the purchase price for GTSC and PDMA to the tangible and intangible assets and liabilities acquired, based on their fair values, as mentioned below:

	GTSC	PDMA
Tangible fixed assets	$ 2,855	$ 219
Current assets and liabilities, net of cash	(1,461)	(1,724)
Customer relationships	8,065	4,600
Leasehold benefits	1,289	—
Developed technology	—	1,800
Non-compete agreements	—	200
Trade names and trademarks	—	800
Goodwill(1)	20,400	8,157
Deferred tax liabilities, net	(2,026)	—
	$29,122	$14,052

(1) Includes $900 deposited in an escrow account in connection with the PDMA acquisition.

Under ASC topic 805, "*Business Combinations*" ("ASC No. 805"), 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 acquisition. The customer relationship and leasehold benefits from the GTSC acquisition are being amortized over a life of ten years and the remaining period of the lease (approximately three years), respectively. The customer relationship and developed technology from the PDMA acquisition are being amortized over a life of ten years each and the non-compete agreement is being amortized over a period of two years. The Company has considered the estimated useful life of trade names and trademarks to be indefinite and will test these for impairment at least annually.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2010
(Unaudited)
(In thousands, except share and per share amounts)

Goodwill

The following table sets forth details of the Company's goodwill balance as of June 30, 2010:

	Outsourcing Services	Transformation Services	Total
Balance at January 1, 2009	$ 772	$ 16,785	$17,557
Goodwill arising from acquisition	2,062	—	2,062
Balance at December 31, 2009	2,834	16,785	19,619
Goodwill arising from acquisitions	28,557	—	28,557
Currency translation adjustments	(158)	—	(158)
Balance at June 30, 2010	$ 31,233	$ 16,785	$48,018

Intangible Assets

Information regarding the Company's intangible assets is set forth below:

	As of June 30, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$13,396	$ (678)	$ 12,718
Leasehold benefits	1,279	(131)	1,148
Developed technology	1,800	(30)	1,770
Non-compete agreements	200	(21)	179
Trade names and trademarks	800	—	800
	$17,475	$ (860)	$ 16,615

	As of December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 794	$ (167)	$ 627
	$ 794	$ (167)	$ 627

Amortization expense for the three months ended June 30, 2010 and 2009 was $520 and $0, respectively. Amortization expense for the six months ended June 30, 2010 and 2009 was $701 and $0, respectively. The estimated amortization of intangible assets for the years ending June 30, 2011, 2012, 2013, 2014 and 2015 is $2,273, $2,033, $1,801, $1,440 and $1,440, respectively.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2010
(Unaudited)
(In thousands, except share and per share amounts)

6. Fair Value Measurements

ASC topic 820, "*Fair Value Measurements and Disclosures*" ("ASC No. 820") defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk, including the Company's own credit risk.

ASC No. 820 establishes a three-level hierarchy of fair value measurements based on whether the inputs to those measurements are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The fair-value hierarchy requires the use of observable market data when available and consists of the following levels:

Level 1 – Quoted prices for identical instruments in active markets;

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets; and

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The following table sets forth the Company's assets and liabilities that were accounted for at fair value as of June 30, 2010. The table excludes short-term investments, accounts receivable, accounts payable and accrued expenses for which fair values approximate their carrying amounts.

Assets and Liabilities Measured at Fair Value

	Level 1	Level 2	Level 3	Total
Assets				
Money market and mutual funds	$70,560	$ —	$ —	$70,560
Derivative financial instruments	—	1,979	—	1,979
Total	$70,560	$1,979	$ —	$72,539
Liabilities				
Derivative financial instruments	$ —	$ 68	$ —	$ 68

Derivative Financial Instrument: The Company's derivative financial instruments consist of foreign currency forward exchange contracts. Fair values for derivative financial instruments are based on broker quotations and are classified as Level 2. See Note 7 for further details.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2010
(Unaudited)
(In thousands, except share and per share amounts)

7. Derivatives and Hedge Accounting

The Company actively looks to mitigate the exposure of foreign currency market risk by entering into various hedging transactions, authorized under Company policies, with counterparties that are highly rated financial institutions. The Company’s primary exchange rate exposure is with the Indian rupee. The Company also has exposure in Philippine pesos, Czech koruna and other local currencies in which it operates. The Company uses derivative instruments for the purpose of mitigating the underlying exposure from foreign currency fluctuation risks associated with forecasted transactions denominated in certain foreign currencies and to minimize earnings and cash flow volatility associated with changes in foreign currency exchange rates, and not for speculative trading purposes. These derivative financial instruments are largely forward foreign exchange contracts that are designated effective and that qualify as cash flow hedges under ASC topic 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 functional currency.

The Company had outstanding foreign exchange contracts totaling $125,779, GBP 6,944 and EUR 546 as of June 30, 2010 and totaling $90,000 and GBP 7,662 as of December 31, 2009. The Company estimates that approximately $1,488 of net derivative gains included in accumulated other comprehensive income (“AOCI”) could be reclassified into earnings within the next twelve months based on exchange rates prevailing as of June 30, 2010. At June 30, 2010, the maximum outstanding term of derivative instruments that hedge forecasted transactions was thirty-three months.

The Company evaluates hedge effectiveness at the time a contract is entered into as well as on an ongoing basis. If during this time, a contract is deemed ineffective, the change in the fair value is recorded in the unaudited consolidated statements of income and is included in foreign exchange gain/(loss). For hedge relationships that are discontinued because the forecasted transaction is not expected to occur by the end of the originally specified period, any related derivative amounts recorded in equity are reclassified to earnings. No significant amounts of gains or losses were reclassified from AOCI into earnings as a result of forecasted transactions that failed to occur during the three and six months ended June 30, 2010.

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

Derivatives designated as hedging instruments:

	June 30, 2010	December 31, 2009
Prepaid expenses and other current assets:		
Foreign currency exchange contracts	$1,542	$ 1,451
Other assets:		
Foreign currency exchange contracts	$ 395	$ 957
Accrued expenses and other current liabilities:		
Foreign currency exchange contracts	$ 54	$ —
Other non current liabilities:		
Foreign currency exchange contracts	$ 14	$ —

Derivatives not designated as hedging instruments:

	June 30, 2010	December 31, 2009
Prepaid expenses and other current assets:		
Foreign currency exchange contracts	$ 42	$ 62

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, 2010 and 2009:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)		Location of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2010	2009		2010	2009		2010	2009
Foreign exchange contracts	$(2,217)	$2,999	Foreign exchange gain/(loss)	$ 635	$ (1,817)	Foreign exchange gain/(loss)	$ —	$ (76)

Derivatives not designated as Hedging Instruments	Location of Loss Recognized in Income on Derivatives	Amount of Loss Recognized in Income on Derivatives	
		2010	2009
Foreign exchange contracts	Foreign exchange gain/(loss)	$ (44)	$ (586)

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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 six months ended June 30, 2010 and 2009:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)		Location of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2010	2009		2010	2009		2010	2009
Foreign exchange contracts	$ 738	$ (927)	Foreign exchange gain/(loss)	$ 1,224	$ (3,232)	Foreign exchange gain/(loss)	$ —	$ (118)

Derivatives not designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
		2010	2009
Foreign exchange contracts	Foreign exchange gain/(loss)	$ 931	$ (1,055)

8. Comprehensive Income/(Loss):

The following table sets forth the change in the components of comprehensive income/(loss) for the three and six months ended June 30, 2010 and 2009:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Net income	$ 4,869	$ 1,252	$ 10,492	$ 4,135
Other comprehensive income/(loss):				
Unrealized gain/(loss) on effective cash flow hedges	(2,852)	4,816	(486)	2,305
Foreign currency translation adjustment	(2,941)	3,093	(428)	1,035
Retirement benefits	38	8	52	34
Total other comprehensive income/(loss)	(5,755)	7,917	(862)	3,374
Total comprehensive income/(loss)	$ (886)	$ 9,169	$ 9,630	$ 7,509

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9. Capital Structure

The Company has one class of common stock.

During the three and six months ended June 30, 2010, the Company acquired 5,472 shares of common stock from employees in connection with withholding tax payments related to the vesting of restricted stock for a total consideration of $93. The purchase price of $16.96 per share was the average of the high and low price of the Company's shares of common stock on the Nasdaq Global Select Market on the trading day prior to the vesting date of the shares of restricted stock. These shares are held as treasury stock.

10. Employee Benefit Plans

The Company's Gratuity Plans in India and the Philippines provide a lump sum payment to vested employees on retirement or on termination of employment in an amount based on the respective employee's salary and years of employment with the Company. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation using the projected unit credit method. Current service costs for the Gratuity Plan 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:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Service cost	$ 143	$ 67	$ 268	$ 132
Interest cost	30	29	60	56
Actuarial loss	42	18	84	35
Net gratuity cost	$ 215	$ 114	$ 412	$ 223

The Company maintains both the ExlService Inc. 401(k) Plan and the Inductis 401(k) Profit Sharing Plan, (the "401(k) Plans") under Section 401(k) of the Internal Revenue Code of 1986 covering all eligible employees. The Company may make discretionary contributions of up to a maximum of 3% of employee compensation within certain limits. The Company's contribution to the 401(k) Plans amounted to $81 and $75 during the three month periods ended June 30, 2010 and June 30, 2009, respectively and $158 and $157 during the six month periods ended June 30, 2010 and June 30, 2009, respectively.

During the three and six month periods ended June 30, 2010 and 2009, the Company contributed the following amounts to various defined contribution plans on behalf of its employees in India, the Philippines, Romania and the Czech Republic:

Three months ended June 30, 2010	$ 899
Three months ended June 30, 2009	$ 488
Six months ended June 30, 2010	$1,732
Six months ended June 30, 2009	$ 927

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11. Leases

The Company leases motor vehicles for some of its employees. Such leases are recorded as capital leases. Future minimum lease payments under these capital leases at June 30, 2010 are set forth below:

Year ending June 30,	
2011	$251
2012	165
2013	171
2014	46
Total minimum lease payments	633
Less: amount representing interest	77
Present value of minimum lease payments	556
Less: current portion	212
Long term capital lease obligation	$344

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 operating lease agreements expiring after more than twelve months are set forth below:

Year ending June 30,	
2011	$ 5,791
2012	4,079
2013	2,989
2014	943
2015	520
2016 and thereafter	2,065
	$16,387

The operating leases are subject to renewal periodically and have scheduled rent increases. The Company accounts for scheduled rent on a straight line basis over the lease period. Rent expense under both cancellable and non-cancellable operating leases was $2,510 and $1,425 for the three months ended June 30, 2010 and 2009, respectively and $4,358 and $2,682 for the six months ended June 30, 2010 and 2009, respectively. Deferred rent as of June 30, 2010 and December 31, 2009 was $2,401 and $1,437, respectively, and is included in “Accrued expenses and other current liabilities” in the unaudited consolidated balance sheet as of June 30, 2010 and the audited balance sheet as of December 31, 2009.

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12. Income Taxes

The Company recorded income tax expense of $1,620 and $109 for the three months ended June 30, 2010 and 2009, respectively and $3,497 and $372 for the six months ended June 30, 2010 and 2009, respectively. The effective rate of taxes attributable to continuing operations was 25.0% and 8.0% for each of the three and six months ended June 30, 2010 and 2009. The increase in overall effective tax rate is primarily due to the expiration of a tax holiday under Indian law for some of our operating units in India during the three months ended June 30, 2010 and also due to the recent GTSC and PDMA acquisitions, income from which is fully taxable.

Certain units of the Company's Indian subsidiaries qualify for an exemption from taxable income under Section 10A or 10B of the Indian Income Tax Act, as their profits are attributable to work performed under the export promotion schemes. This exemption is available for a period of ten consecutive years beginning with the financial year in which the entity begins to manufacture or produce eligible goods and services and originally expired on March 31, 2010. In July 2009, the Indian government extended the tax holiday period by one year from March 31, 2010 to March 31, 2011. The tax holiday period for some of the units of the Company expired on April 1, 2010 and any profits from such units after such date is fully taxable at the Indian statutory rate, which is 33.22%.

Deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective tax bases and operating loss carry forwards. At June 30, 2010, the Company performed an analysis of the deferred tax asset valuation allowance for certain units of its Indian subsidiaries and net operating loss carry forward for its domestic entities. Based on this analysis, the Company continues to record a valuation allowance on deferred tax assets pertaining to such units of the Company's subsidiaries for which the tax holiday period is currently scheduled to expire on April 1, 2011 and the deferred tax assets on net operating loss carry forwards. The valuation allowance as of June 30, 2010 and December 31, 2009 was approximately $2,370 and $2,254, respectively.

During 2007, the Indian government passed tax legislation that, among other items, subjects Indian taxpayers to a Minimum Alternative Tax ("MAT"). As of June 30, 2010 and December 31, 2009, income tax credits related to the MAT were approximately $4,974 and $4,269, respectively.

The Company's provision for income taxes also includes the impact of provisions established for uncertain income tax positions determined in accordance with ASC topic No. 740, "*Income Taxes*" as well as the related net interest. Tax exposures can involve complex issues and may require an extended period to resolve. Although the Company believes that it has adequately reserved for its uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. The Company adjusts these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters differs from the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made.

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The following table summarizes the activity related to the gross unrecognized tax benefits from January 1, 2010 through June 30, 2010:

Balance as of January 1, 2010	$4,156
Increases related to prior year tax positions	—
Decreases related to prior year tax positions	—
Increases related to current year tax positions	980
Effect of exchange rate changes	(8)
Balance as of June 30, 2010	$5,128

The unrecognized tax benefits as of June 30, 2010 of $5,128, if recognized, would impact the effective tax rate.

The Company has recognized interest and penalties of $36 and $132 during the three and six months ended June 30, 2010, respectively, and is included in the income tax provision in the unaudited consolidated statements of income. The unrecognized tax benefits may increase or decrease in the next twelve months depending on the Company's tax positions.

13. Stock-Based Compensation

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Cost of revenue	$ 616	$ 454	$ 1,004	$ 755
General and administrative expenses	939	907	1,769	1,670
Selling and marketing expenses	849	613	1,458	1,088
Total	$ 2,404	$ 1,974	$ 4,231	$ 3,513

The fair value of each stock option granted to employees is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Dividend yield	—	0%	0%	0%
Expected life (years)	—	5.98	5.33	4.56
Risk free interest rate	—	2.76%	2.64%	1.73%
Volatility	—	50%	40%	50%

The estimated expected term of options granted has been based on historical experience since October 2006, which is representative of the expected term of the options. Volatility has been calculated based on the volatility of the Company's common stock and the volatility of stocks of comparable companies. The risk-free interest rate that the Company uses in the option valuation model is based on U.S. treasury zero-coupon bonds with a remaining term similar to the expected term of the options.

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The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option valuation model. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and records stock-based compensation expense only for those awards that are expected to vest. All stock-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods.

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

	Number of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Life (years)
Outstanding at December 31, 2009	3,188,066	$ 11.52	$21,999	7.94
Granted	60,069	18.24		
Exercised	(74,699)	10.63		
Forfeited	(108,330)	13.85		
Outstanding at June 30, 2010	3,065,106	$ 11.59	$18,108	7.49
Vested and exercisable at June 30, 2010	1,316,137	$ 12.24	$ 6,950	6.57
Available for grant at June 30, 2010	3,675,431			

The unrecognized compensation cost for unvested options as of June 30, 2010 is $6,628, which is expected to be expensed over a weighted average period of 2.15 years. The weighted-average fair value of options granted during the three months ended June 30, 2010 and 2009 was $0 and $4.06, respectively and for the six months ended June 30, 2010 and 2009 was $7.44 and $3.47, respectively. The total fair value of shares vested during the three months period ending June 30, 2010 is $979 and for the six months period ending June 30, 2010 is $2,255.

Restricted Stock and Restricted Stock Units

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

	Restricted Stock		Restricted Stock Units	
	Number	Weighted-Average Intrinsic Value	Number	Weighted-Average Intrinsic Value
Outstanding at December 31, 2009	379,810	$ 21.78	28,000	$ 14.04
Granted	—	—	601,119	18.02
Vested	(108,792)	18.85	(4,000)	9.59
Forfeited	(6,766)	16.11	(10,250)	18.44
Outstanding at June 30, 2010	264,252	$ 23.13	614,869	$ 17.88

As of June 30, 2010, unrecognized compensation cost of $14,015 is expected to be expensed over a weighted average period of 3.06 years.

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14. Related Party Transactions

The Company provides services to Duane Reade Holdings, Inc., a New York City drugstore chain. Duane Reade Holdings, Inc. was until April 2010, indirectly owned by entities related to the Oak Hill Capital Partners, L.P., one of the Company's significant stockholders. The Company recognized revenues of $1 and $162 during the three months ended June 30, 2010 and 2009, respectively, and $17 and $220 during the six months ended June 30, 2010 and 2009, respectively for fees and expense reimbursements from Duane Reade Holdings, Inc. At June 30, 2010 and December 31, 2009, the Company had an account receivable of $0 and $43, respectively, related to these services.

The Company provides services to Oak Hill Capital Partners, an affiliate of the Oak Hill Capital Partners, L.P., one of the Company's significant stockholders. The Company recognized revenues of approximately $23 and $6 during the three months ended June 30, 2010 and 2009, respectively, and $38 and $6 during the six months ended June 30, 2010 and 2009, respectively. At June 30, 2010 and December 31, 2009, the Company had an account receivable of $11 and $13, respectively, related to these services.

15. Geographical Information

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenues				
United States	$ 44,298	$ 27,418	$ 82,880	$ 54,221
United Kingdom	14,101	14,505	28,418	28,481
Rest of world	2,240	462	3,830	669
	$ 60,639	$ 42,385	$ 115,128	$ 83,371

	June 30, 2010	December 31, 2009
Fixed assets, net		
India	$24,263	$ 18,768
United States	1,130	1,036
Philippines	2,573	3,262
Rest of world	1,015	898
	$28,981	$ 23,964

16. Commitments and Contingencies

Fixed Asset Commitments

At June 30, 2010, the Company had committed to spend approximately $6,754 under agreements to purchase fixed assets. This amount is net of advances paid in respect of these purchases.

Other Commitments

The Company's delivery centers or units in India have been established as 100% Export-Oriented units under the "Export Import Policy" (the "Policy") or Software Technology Parks of India units ("STPI") under the STPI guidelines issued by the Government of India that has provided the Company with certain incentives on imported and indigenous capital goods. Under the Policy, these units must achieve certain export ratios and realize revenues attributable to exports over a specified period. In the event that these units are unable to meet the requirements over the specified period, the Company may be required to refund these incentives along with penalties and fines. However, management believes that these units will continue to achieve the export levels within the required timeframe as they have consistently generated the required levels of export revenues.

ExlService Philippines, Inc. ("Exl Philippines") is registered as an Ecozone IT Enterprise with the Philippines Economic Zone Authority. The registration has also provided the Company with certain incentives on the import of capital goods. Exl Philippines has an export obligation of $39,273 during the three year period ending March 2011.

Contingencies

U.S. and Indian transfer pricing regulations require that any international transaction involving associated enterprises be at an arm's-length price. Transactions among the Company's subsidiaries and the Company may be required to satisfy such requirements. Accordingly, the Company determines the pricing among its associated enterprises on the basis of detailed functional and economic analysis involving benchmarking against transactions among entities that are not under common control. The tax authorities have jurisdiction to review this arrangement and in the event that they determine that the transfer price applied was not appropriate, the Company may incur increased tax liability, including accrued interest and penalties. The Company is currently involved in disputes with the Indian tax authorities over the application of some of its transfer pricing policies. The Company has received assessment orders from the Indian tax authorities with respect to their audit of certain of the Company's subsidiaries. The Indian tax authorities are examining income tax returns for other tax years.

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The details of the assessment orders received from the Indian tax authorities as of June 30, 2010 are set forth below:

Entity	Tax Year	Issue	Amount Demanded (Including Interest)	Amount Deposited	Bank Guarantee Issued
Exl India	2003-04	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. was not appropriate and also disallows certain expenses claimed as tax deductible by EXL India	$ 2,093	$ 2,093	$ —
Exl India	2004-05	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. was not appropriate and also disallows certain expenses claimed as tax deductible by EXL India	$ 2,029	$ 2,029	$ —
Exl India	2005-06	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. was not appropriate and also disallows certain expenses claimed as tax deductible by EXL India	$ 5,393	$ 1,884	$ 3,509
Exl India	2006-07	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. was not appropriate and also disallows certain expenses claimed as tax deductible by EXL India	$ 3,868	$ —	$ —
Exl Inc.	2003-04	The assessment order alleges that EXL Inc. has a permanent establishment in India	$ 3,863	$ 1,507	$ 2,356
Exl Inc.	2004-05	The assessment order alleges that EXL Inc. has a permanent establishment in India	$ 99	$ 43	$ 56
Exl Inc.	2005-06	The assessment order alleges that EXL Inc. has a permanent establishment in India	$ 828	$ 388	$ 440
			$ 18,173	$ 7,944	$ 6,361

Based on advice from its Indian tax advisors, the facts underlying its position and its experience with these types of assessments, the Company believes that the probability of loss is remote and accordingly has not accrued any amount with respect to these matters in its unaudited consolidated financial statements. With the exception of the assessment order relating to the 2006-07 tax year of EXL India, which order was recently received, the Company has deposited amounts with the Indian government and provided bank guarantees. The Company does not expect any impact from these assessments on its future income tax expense.

In order to resolve the transfer pricing and permanent establishment tax disputes with the Indian tax authorities, the Company filed requests with the competent authorities in the U.S. to invoke a Mutual Agreement Procedure (“MAP”), under the United States – India Tax Treaty. As required by the MAP, the Company obtained bank guarantees in the amounts set forth above to stop the collection of the outstanding tax demands and interest by the Indian tax authorities. If additional assessment orders are received for subsequent years, the Company may invoke the MAP for such orders and would be required to obtain additional bank guarantees.

As a result of commencing the MAP, the U.S. Competent Authority negotiated with the Indian Competent Authority to reach a proposed resolution to the outstanding transfer pricing dispute. After negotiations, no proposed resolution was reached on the permanent establishment dispute. The proposed resolution under MAP is not binding on the Company. After due consideration, the Company has rejected the proposed resolution because it was largely based on the negotiated position for a broad group of companies. The Company believes that its factual circumstances and its unique transfer pricing position set it apart from other companies that were included in these broad negotiations. Accordingly, the Company will continue to seek resolution of these disputes through judicial proceedings.

Amounts paid as deposits in respect of the assessments described above aggregating to $7,944 and $7,770 as of June 30, 2010 and December 31, 2009, respectively, are included in “Other assets” and amounts deposited for bank guarantees aggregating to $6,361 and $2,847 as of June 30, 2010 and December 31, 2009, respectively, are included in “Restricted cash” in the Company’s unaudited consolidated balance sheet as of June 30, 2010 and the audited consolidated balance sheet as of December 31, 2009.

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, 2009. 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 dollar amounts.

Overview

We are a leading provider of outsourcing and transformation services focused on providing a competitive edge to our clients by outsourcing and transforming their business processes. Our outsourcing services provide integrated front-, middle- and back-office process outsourcing services for our principally U.S.-based and U.K.-based clients. Outsourcing services involve the transfer to us of select business operations of a client, such as claims processing, finance and accounting and customer service, after which we administer and manage the operations for our client on an ongoing basis. We also offer a number of transformation services that include decision analytics, risk and financial management and operations and process excellence services. These transformation services help our clients improve their operating environments through cost reduction, enhanced efficiency and productivity initiatives, and improve the risk and control environments within our clients' operations whether or not they are outsourced to us. A significant portion of our business relates to processes that we believe are integral to our clients' operations, and the close nature of our relationships with our clients assists us in developing strong strategic long-term relationships with them. We serve primarily the needs of Global 1000 companies in the insurance, utilities, banking and financial services, transportation and logistics, and travel sectors.

We market our services directly through our sales and marketing and strategic account management teams, which operate out of the United States and the United Kingdom, and our business development team, which operates out of Noida, India. We currently operate eleven operations centers in India, including a new operations center in Jaipur, India, which became operational in July 2010, one operations center in the Philippines, one operations center in Cluj, Romania and one operations center in Olomouc, the Czech Republic. We are also in the process of establishing a new operations center in Noida, India.

On July 3, 2009, we acquired a 100% stake in Schneider Logistics Europe S.R.O. ("Schneider S.R.O.") which is located in the Czech Republic and which provides complex transaction processing services to clients in Europe and the U.S. The acquisition provided us with multi-lingual delivery capabilities and a cost-effective delivery location in Eastern Europe.

On March 1, 2010, we acquired the operations of the American Express Global Travel Service Center ("GTSC"), a business unit of American Express located in Gurgaon, India, that provides the travel-related business process outsourcing services of American Express. The purchase price of the transaction, which was paid in cash, was approximately $29.1 million.

On May 1, 2010, the Company acquired a 100% stake in Professional Data Management Again, Inc. ("PDMA"), maker of the LifePRO® insurance policy administration system used by approximately 40 life, health and annuity insurers globally. The purchase consideration for PDMA, which was paid in cash, was approximately $14.1 million (including cash acquired of $1.0 million), net of working capital adjustments.

We generate revenues principally from contracts to provide outsourcing and transformation services. For the three and six months ended June 30, 2010, we had total revenues of $60.6 million and $115.1 million, respectively, compared to total revenues of $42.4 million and $83.4 million, respectively, in the three and six months ended June 30, 2009, an increase of $18.2 million and $31.8 million, respectively, or 43.1% and 38.1%, respectively. Revenues from outsourcing services were higher by $12.0 million and $20.3 million in the three and six months ended June 30, 2010, respectively, compared to the three and six months ended June 30, 2009, primarily due to revenues of $9.1 million and $12.5 million, respectively, from our acquisitions mentioned above, net volume increases within existing clients of approximately $2.3 million and $6.1 million and an increase of approximately $0.6 million and $1.8 million due to the appreciation

of the Indian rupee against the U.S. dollar and the U.K. pound sterling in the three and six months ended June 30, 2010 compared to the three and six months ended June 30, 2009. Revenues from transformation services were higher by $6.2 million and $11.5 million during the three and six months ended June 30, 2010 compared to the three and six months ended June 30, 2009, primarily due to a combination of increased revenues in recurring or annuity decision analytics services and an increase in project-based engagements both in our decision analytics and risk and financial management practices. We believe this reflects increased spending by our clients for decision analytics services, particularly in the areas of customer management, process improvement and risk management, as compared to the previous year.

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

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

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

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

We serve clients mainly in the United States and the United Kingdom, with these two regions generating approximately 73.1% and 23.3%, respectively, of our total revenues for the three months ended June 30, 2010 and approximately 64.7% and 34.2%, respectively, of our total revenues for the three months ended June 30, 2009. For the six months ended June 30, 2010, these two regions generated approximately 72.0% and 24.7%, respectively, of our total revenues and approximately 65.0% and 34.2%, respectively, of our total revenues for the six months ended June 30, 2009.

We derive a significant portion of our revenues from a limited number of large clients. In the three months ended June 30, 2010 and 2009, our total revenues from our three largest clients were $26.4 million and $19.8 million, respectively, accounting for 43.5% and 46.7% of our total revenues, respectively, during these periods. In the six months ended June 30, 2010 and 2009, our total revenues from our three largest clients were $48.2 million and $36.6 million, respectively, accounting for 41.9% and 43.9% of our total revenues, respectively, during these periods.

We provide services to Centrica, which represented $9.5 million, or 15.6%, and $19.0 million or 16.5% of our total revenues for the three and six months ended June 30, 2010 and $10.0 million, or 23.5%, and $18.7 million, or 22.4 % of our total revenues for the three and six months ended June 30, 2009, under an agreement that is scheduled to expire in April 2012. Centrica may terminate the agreement without cause upon three months prior notice and payment of a breakup fee.

We provide services to Travelers, which represented $8.6 million, or 14.2%, and $17.1 million, or 14.8% of our total revenues for the three and six months ended June 30, 2010, and $5.5 million, or 13.0% and $10.5 million, or 12.6% of our total revenues for the three and six months ended June 30, 2009, under a services agreement. Travelers may terminate the services agreement, or any work assignment or work order thereunder, each of which expires in December 2013, without cause upon 60 days prior notice.

We provide services to subsidiaries of American Express Company (“American Express”) under (i) a master services agreement for our outsourcing services, which agreement cannot be terminated by American Express for convenience and which provides us with a minimum volume commitment over a period of eight years and (ii) a master agreement for our transformation services, which agreement may be terminated by American Express for convenience upon five days prior written notice. Our revenues from American Express represented $8.3 million, or 13.7%, and $12.2 million or 10.6% of our total revenues for the three and six months ended June 30, 2010, respectively. Revenues for the three and six months ended June 30, 2009 were insignificant as a percentage of our total revenues.

We derived revenues from six and three new clients for our services, in the three months ended June 30, 2010 and 2009, respectively, and ten and five new clients for our services, in the six months ended June 30, 2010 and 2009, respectively. Although we are increasing and diversifying our customer base, we expect in the near future that a significant portion of our revenues will continue to be contributed by a limited number of large clients.

Revenues also include amounts representing reimbursable expenses that are billed to and reimbursed by our clients and typically include telecommunication and travel-related costs. The amount of reimbursable expenses that we incur, and any resulting revenues, can vary significantly from period to period depending on each client’s situation and on the type of services provided. For the three months ended June 30, 2010 and 2009, 4.4% and 5.9%, respectively, of our revenues represent reimbursement of such expenses. For the six months ended June 30, 2010 and 2009, 4.5%, and 4.8%, respectively, of our revenues represent reimbursement of such expenses.

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

Our management has observed in recent periods a shift in industry pricing models toward transaction-based pricing and other pricing models. We believe this trend will continue and we have begun to use transaction-based 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 pricing model. Transaction-based pricing places 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 favourable 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 favourable contract terms from other vendors, our operating margins and revenues may be reduced with regard to such clients to the extent we are required to modify the terms of our relationship with such clients.

Critical Accounting Policies and Estimates

For a description of our critical accounting policies and estimates, refer to our Annual Report on Form 10-K for the year ended December 31, 2009.

Results of Operations

The following table summarizes our results of operations:

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
	(in millions)		(in millions)	
Revenues(1)	$ 60.6	$ 42.4	$ 115.1	$ 83.4
Cost of revenues (exclusive of depreciation and amortization)(2)	37.4	25.8	68.9	50.2
Gross profit	23.2	16.6	46.2	33.2
Operating expenses:				
General and administrative expenses(3)	9.5	7.6	18.8	14.4
Selling and marketing expenses(3)	4.6	3.4	8.7	6.5
Depreciation and amortization expenses(4)	3.8	2.8	6.9	5.2
Total operating expenses	17.9	13.8	34.4	26.1
Income from continuing operations	5.3	2.8	11.8	7.1
Other income/(expense):				
Foreign exchange gain/(loss)	0.9	(1.7)	1.5	(3.0)
Interest and other income	0.3	0.3	0.7	0.5
Income from continuing operations before income taxes	6.5	1.4	14.0	4.6
Income tax provision	1.6	0.1	3.5	0.4
Income from continuing operations	4.9	1.3	10.5	4.2
Loss from discontinued operations, net of taxes	—	—	—	(0.1)
Net income	$ 4.9	$ 1.3	$ 10.5	$ 4.1

(1) Revenues include reimbursable expenses of $2.7 million and $2.5 million for the three months ended June 30, 2010 and 2009, respectively, and $5.2 million and $4.0 million for the six months ended June 30, 2010 and 2009.

(2) Cost of revenues includes $0.6 million and $0.5 million for the three months ended June 30, 2010 and 2009, respectively, and $1.0 million and $0.8 million for the six months ended June 30, 2010 and 2009, respectively, of non-cash amortization of stock compensation expense relating to the issuance of equity awards to employees directly involved in providing services to our clients as described in Note 13 to our Unaudited Consolidated Financial Statements contained herein.

(3) General and administrative expenses and selling and marketing expenses include $1.8 million and $1.5 million for the three months ended June 30, 2010 and 2009, respectively, and $3.2 million and $2.8 million for the six months ended June 30, 2010 and 2009 of non-cash amortization of stock compensation expense relating to the issuance of equity awards to our non-operations staff as described in Note 13 to our Unaudited Consolidated Financial Statements contained herein.

(4) Depreciation and amortization includes $0.5 million and $0 million for the three months ended June 30, 2010 and 2009, respectively, and $0.7 million and $0 million for the six months ended June 30, 2010 and 2009, respectively, of amortization of intangibles as described in Note 5 to our Unaudited Consolidated Financial Statements contained herein.

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

Revenues. Revenues increased 43.1% from $42.4 million for the three months ended June 30, 2009 to $60.6 million for the three months ended June 30, 2010. Revenues from outsourcing services increased from $34.5 million for the three months ended June 30, 2009 to $46.6 million for the three months ended June 30, 2010. The increase in revenues from outsourcing services is primarily driven by revenues from our acquisitions of $9.1 million, net volume increases within existing clients aggregating to $2.3 million and revenues of $0.6 million due to the appreciation of the Indian rupee against the U.S. dollar and the U.K. pound sterling during the three months ended June 30, 2010 compared to the three months ended June 30, 2009.

Revenues from transformation services increased from $7.9 million for the three months ended June 30, 2009 to $14.1 million for the three months ended June 30, 2010. The increase is primarily due to a combination of increased revenues in recurring or annuity decision analytics services and an increase in project-based engagements both in our decision analytics and risk and financial management practices. Revenues from new clients for transformation services were $0.8 million and $0.1 million during the three months ended June 30, 2010 and 2009, respectively.

Cost of Revenues. Cost of revenues increased 45.0% from $25.8 million for the three months ended June 30, 2009 to $37.4 million for the three months ended June 30, 2010. The increase in cost of revenues is primarily due to increases in employee-related costs of $8.2 million as a result of an increase in our headcount of personnel directly involved in providing services to our clients, including $5.1 million of employee-related costs related to our acquisitions, an increase in reimbursable expenses of $1.0 million (resulting in an increase in revenues), an increase in facilities operating expenses by $1.0 million, primarily due to the new operating centers from our acquisitions and an increase of $1.3 million due to the appreciation of the Indian rupee and the Philippine peso against the U.S. dollar during the three months ended June 30, 2010 compared to the three months ended June 30, 2009. As a percentage of revenues, cost of revenues increased from 60.9% for the three months ended June 30, 2009 to 61.8% for the three months ended June 30, 2010.

Gross Profit. Gross profit increased 40.1% from $16.6 million for the three months ended June 30, 2009 to $23.2 million for the three months ended June 30, 2010. The increase in gross profit was primarily due to an increase in revenues of $18.2 million, offset by an increase in cost of revenues of $11.6 million. Gross profit as a percentage of revenues decreased marginally from 39.1% for the three months ended June 30, 2009 to 38.2% for the three months ended June 30, 2010, primarily due to an increase in cost of revenues as mentioned above.

SG&A Expenses. SG&A expenses increased 28.2% from $11.0 million for the three months ended June 30, 2009 to $14.1 million for the three months ended June 30, 2010. The increase in SG&A expenses is primarily due to an increase in employee-related costs of $1.7 million, an increase in facilities related costs of $0.7 million, primarily related to our new operations centers in Jaipur and Noida, India, acquisition-related costs of $0.2 million and an increase of $0.3 million due to the appreciation of the Indian rupee against the U.S. dollar during the three months ended June 30, 2010 compared to the three months ended June 30, 2009. As a percentage of revenues, SG&A decreased from 25.9% for the three months ended June 30, 2009 to 23.2% for the three months ended June 30, 2010.

Depreciation and Amortization. Depreciation and amortization increased 38.3% from $2.8 million for the three months ended June 30, 2009 to $3.9 million for the three months ended June 30, 2010. The increase is primarily due to the amortization of acquisition related intangibles of $0.5 million, depreciation related to our new operations centers as a result of our acquistions of $0.5 million and increase of $0.2 million due to the appreciation of the Indian rupee against the U.S. dollar during the three months ended June 30, 2010 compared to the three months ended June 30, 2009. As we add more operations centers, we expect that depreciation expense will increase to reflect the additional investment in equipment and facility build outs necessary to meet our service requirements.

Income from Operations. Income from operations increased 88.6% from $2.8 million for the three months ended June 30, 2009 to $5.3 million for the three months ended June 30, 2010. As a percentage of revenues, income from operations increased from 6.6% for the three months ended June 30, 2009 to 8.7% for the three months ended June 30, 2010. The increase in income from operations was primarily due to an increase in gross profit by $6.6 million, offset by an increase in operating expenses of $4.2 million as mentioned above.

Other Income/(Expense). Other income/(expense) is comprised of foreign exchange gains and losses, interest income, interest expense and other. Other income/(expense) increased from an expense of ($1.4) million for the three months ended June 30, 2009 to an income of $1.2 million for the three months ended June 30, 2010, primarily as a result of net foreign exchange gain of $0.9 million during the three months ended June 30, 2010 compared to the net foreign exchange losses of $1.7 million during the three months ended June 30, 2009 attributable to movement of the U.S. dollar against the Indian rupee and the U.K. pound sterling relative to our foreign exchange hedged positions. The average exchange rate of the Indian rupee against the U.S. dollar was 45.73 during the three months ended June 30, 2010 compared to 48.35 during the three months ended June 30, 2009.

Provision for Income Taxes. Provision for income taxes increased from $0.1 million for the three months ended June 30, 2009 to $1.6 million for the three months ended June 30, 2010. The effective rate of taxes increased significantly from 8.0% for the three months ended June 30, 2009 to 25% for the three months ended June 30, 2010, primarily as a result of the expiration of a tax holiday at certain units of our Indian operations. Refer to Note 12 to the Unaudited Consolidated Financial Statements for further details.

Net Income. Net income increased from $1.3 million for the three months ended June 30, 2009 to $4.9 million for the three months ended June 30, 2010, primarily due to an increase in operating income of $2.5 million and other income of $2.7 million, partially offset by an increase in the provision for income taxes of $1.5 million. As a percentage of revenues, net income increased from 3.0% for the three months ended June 30, 2009 to 8.0% for the three months ended June 30, 2010.

Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

Revenues. Revenues increased 38.1% from $83.4 million for the six months ended June 30, 2009 to $115.1 million for the six months ended June 30, 2010. Revenues from outsourcing services increased from $67.9 million for the six months ended June 30, 2009 to $88.1 million for the six months ended June 30, 2010. The increase is primarily driven by revenues from our acquisitions of $12.5 million, net volume increases within existing clients aggregating to $6.1 million and revenues of $1.8 million due to the appreciation of the Indian rupee against the U.S. dollar and the U.K. pound sterling during the six months ended June 30, 2010 compared to the six months ended June 30, 2009.

Revenues from transformation services increased from $15.5 million for the six months ended June 30, 2009 to $27.0 million for the six months ended June 30, 2010. The increase is primarily due to a combination of increased revenues in recurring or annuity decision analytics services and an increase in project-based engagements both in our decision analytics and risk and financial management practices. Revenues from new clients for transformation services were $0.4 million and $1.5 million during the six months ended June 30, 2009 and 2010, respectively.

Cost of Revenues. Cost of revenues increased 37.4% from $50.2 million for the six months ended June 30, 2009 to $68.9 million for the six months ended June 30, 2010. The increase in cost of revenues is primarily due to increases in employee-related costs of $11.8 million as a result of an increase in our headcount of personnel directly involved in providing services to our clients, including $7.1 million of employee-related costs related to our acquisitions, increase in reimbursable expenses of $2.1 million (resulting in an increase in revenues) increase in facilities operating expenses by $1.5 million, primarily due to the new operating centers from our acquisitions and an increase of $3.2 million due to the appreciation of the Indian rupee and the Philippine peso against the U.S. dollar during the six months ended June 30, 2010 compared to the six months ended June 30, 2009. As a percentage of revenues, cost of revenues decreased marginally from 60.2% for the six months ended June 30, 2009 to 59.9% for the six months ended June 30, 2010.

Gross Profit. Gross profit increased 39.2% from $33.2 million for the six months ended June 30, 2009 to $46.2 million for the six months ended June 30, 2010. The increase in gross profit was primarily due to an increase in revenues of $31.8 million, offset by

an increase in cost of revenues of $18.8 million. Gross profit as a percentage of revenues increased marginally from 39.8% for the six months ended June 30, 2009 to 40.1% for the six months ended June 30, 2010, primarily due to an increase in revenues as mentioned above.

SG&A Expenses. SG&A expenses increased 31.7% from $20.9 million for the six months ended June 30, 2009 to $27.5 million for the six months ended June 30, 2010. The increase in SG&A expenses is primarily due to an increase in salaries and personnel expenses of $3.8 million, an increase in facilities related costs of $1.0 million, primarily related to our new operations centers in Jaipur and Noida, India, acquisition-related costs of $0.4 million, an increase in travel and other marketing related costs of $0.7 million and an increase of $0.7 million due to the appreciation of the Indian rupee against the U.S. dollar during the six months ended June 30, 2010 compared to the six months ended June 30, 2009. As a percentage of revenues, SG&A decreased marginally from 25.1% for the six months ended June 30, 2009 to 23.9% for the six months ended June 30, 2010.

Depreciation and Amortization. Depreciation and amortization increased 32.8% from $5.2 million for the six months ended June 30, 2009 to $6.9 million for the six months ended June 30, 2010. The increase is primarily due to amortization of acquisition related intangibles of $0.7 million, depreciation related to our new operations centers as a result of our acquisitions of $0.7 million and increase of $0.4 million due to the appreciation of the Indian rupee against the U.S. dollar during the six months ended June 30, 2010 compared to the six months ended June 30, 2009. As we add more operations centers, we expect that depreciation expense will increase to reflect the additional investment in equipment and facility build outs necessary to meet our service requirements.

Income from Operations. Income from operations increased 66.0% from $7.1 million for the six months ended June 30, 2009 to $11.7 million for the six months ended June 30, 2010. As a percentage of revenues, income from operations increased from 8.5% for the six months ended June 30, 2009 to 10.2% for the six months ended June 30, 2010. The increase in income from operations was primarily due to an increase in gross profit by $13.0 million, offset by an increase in operating expenses of $8.3 million as mentioned above.

Other Income/(Expense). Other income/(expense) is comprised of foreign exchange gains and losses, interest income, interest expense and others. Other income/(expense) increased from an expense of ($2.4) million for the six months ended June 30, 2009 to an income of $2.2 million for the six months ended June 30, 2010, primarily as a result of net foreign exchange gain of $1.5 million during the six months ended June 30, 2010 compared to the net foreign exchange losses of $3.0 million during the six months ended June 30, 2009 attributable to movement of the U.S. dollar against the Indian rupee and the U.K. pound sterling relative to our foreign exchange hedged positions. The average exchange rate of the Indian rupee against the U.S. dollar was 45.72 during the six months ended June 30, 2010 compared to 49.30 during the six months ended June 30, 2009.

Provision for Income Taxes. Provision for income taxes increased from $0.4 million for the six months ended June 30, 2009 to $3.5 million for the six months ended June 30, 2010. The effective rate of taxes increased significantly from 8.0% for the six months ended June 30, 2009 to 25% for the six months ended June 30, 2010, primarily as a result of the expiration of a tax holiday at certain units of our Indian operations. Refer to Note 12 to the Unaudited Consolidated Financial Statements for further details.

Net Income. Net income increased from $4.1 million for the six months ended June 30, 2009 to $10.5 million for the six months ended June 30, 2010, primarily due to an increase in operating income of $4.7 million and other income of $4.7 million, partially offset by an increase in the provision for income taxes of $3.1 million. As a percentage of revenues, net income increased from 5.0% for the six months ended June 30, 2009 to 9.1% for the six months ended June 30, 2010.

Liquidity and Capital Resources

At June 30, 2010, we had $91.4 million in cash, cash equivalents and short-term investments.

Cash flows provided by operating activities increased from $6.6 million in the six months ended June 30, 2009 to $7.0 million in the six months ended June 30, 2010. Cash flows from net income adjusted for non-cash items increased by $8.3 million, primarily due to higher net income, depreciation and amortization and share-based compensation expense. The increase is offset by a decrease in cash flows from changes in working capital by $7.9 million. Changes in working capital arose primarily from an increase in accounts receivables of $5.5 million during the six months ended June 30, 2010 compared to a decrease of $3.0 million during the six months ended June 30, 2009, primarily due to increase in revenues.

Cash flows used for investing activities increased from $5.2 million in the six months ended June 30, 2009 to $50.6 million in the six months ended June 30, 2010. The increase is primarily due to the payment of the purchase consideration of approximately $29.1 million for the GTSC acquisition, $13.0 million for the acquisition of PDMA (net of cash acquired) and an increase in capital expenditures of $3.2 million during the six months ended June 30, 2010 compared to the six months ended June 30, 2009.

Cash flows provided by financing activities was $0.6 million during the six months ended June 30, 2010, primarily representing the proceeds from exercises of stock options.

We expect to use cash from operating activities to maintain and expand our business. As we have focused on expanding our cash flow from operating activities, we continue to make capital investments, primarily related to new facilities and capital expenditures associated with leasehold improvements to build out our facilities and purchase of telecommunications equipment and computer hardware and software in connection with managing client operations. We incurred approximately $10.0 million of capital expenditures in the six months ended June 30, 2010. We expect to incur capital expenditures of approximately $10.0 million to $12.0 million in the remainder of 2010 primarily to meet the growth requirements of our clients, including additions to our existing facilities and establishing a new operations center in Noida, India as well as to improve our internal technology. The timing and volume of such capital expenditures in the future will be affected by new client contracts we may enter into or the expansion of business under our existing client contracts.

In connection with the tax assessment orders issued against Exl India and Exl Inc. we may be required to deposit additional amounts with respect to the assessment orders received by us and for similar orders for subsequent years that may be received by us. As required by the MAP, we obtained bank guarantees of approximately $2.9 million in April 2009 and approximately $3.5 million in January 2010, and might need to obtain additional bank guarantees, in favor of the Government of India to stop the collection of the outstanding tax demands and interest for various tax years. 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 acquisitions, capital expenditures and working capital needs. If we have significant growth through acquisitions, we may need to obtain additional financing.

Off-Balance Sheet Arrangements

As of June 30, 2010 and December 31, 2009, we had no off-balance sheet arrangements or obligations.

Contractual Obligations

The following table sets forth our contractual obligations as of June 30, 2010:

	Payment Due by Period				
	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
			(in millions)		
Capital leases	$ 0.3	$ 0.3	$—	$ —	$ 0.6
Operating leases	5.8	7.0	1.5	2.1	16.4
Purchase obligations	6.8	—	—	—	6.8
Other obligations(a)	0.5	1.2	1.1	1.4	4.2
Total contractual cash obligations	$ 13.4	$ 8.5	$ 2.6	$ 3.5	$28.0

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

Certain units of our Indian subsidiaries have been established as 100% Export-Oriented units under the "Export Import Policy" (the "Policy") or Software Technology Parks of India units ("STPI") under the STPI guidelines issued by the Government of India that has provided us with certain incentives on imported and indigenous capital goods. Under the Policy, these units must achieve certain export ratios and realize revenues attributable to exports over a specified period. In the event that these units are unable to meet the requirements over the specified period, we may be required to refund these incentives along with penalties and fines. However, we believe that these units will continue to achieve the export levels within the required timeframe as they have consistently generated the required levels of export revenues.

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

Recent Accounting Pronouncements

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

In September 2009, the FASB issued Update No. 2009-13, "*Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force* ("ASU 2009-13"). It updates the existing multiple-element revenue arrangements guidance currently included under ASC topic 605-25, which originated primarily from the guidance in EITF Issue No. 00-21, "*Revenue Arrangements with Multiple Deliverables*." The revised guidance primarily provides two significant changes: first,

it eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and second, it eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. ASU 2009-13 will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. We have chosen to adopt this new guidance with effect from January 1, 2011. Currently, we do not expect there to be any impact from the adoption of ASU 2009-13 as the number of multiple-deliverable revenue arrangements are insignificant.

Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward looking statements. You should not place undue reliance on those statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Forward looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as “may,” “will,” “should,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate” or similar expressions. These statements are based on assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this 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 United States or elsewhere to offshore outsourcing;
- fluctuations in our earnings;
- our ability to attract and retain clients;
- restrictions on immigration;
- our ability to hire and retain enough sufficiently trained employees to support our operations;
- our ability to grow our business or effectively manage growth and international operations;
- increasing competition in our industry;
- telecommunications or technology disruptions;
- fluctuations in exchange rates between the currencies in which we receive our revenues and the currencies in which we incur our costs;
- regulatory, legislative and judicial developments, including changes to or the withdrawal of governmental fiscal incentives;
- technological innovation;
- political or economic instability in the geographies in which we operate;
- our ability to successfully consummate or integrate strategic acquisitions; and
- adverse outcome of our disputes with the Indian tax authorities.

These and other factors are more fully discussed elsewhere in this 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 of Form 10-Q.

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the six months ended June 30, 2010, 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, 2009.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports the Company files under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to allow timely decisions regarding required financial disclosure. In connection with the preparation of this Quarterly Report on Form 10-Q, the Company's management carried out an evaluation, under the supervision and with the participation of the CEO and CFO, of the effectiveness and operation of our disclosure controls and procedures as of June 30, 2010. Based upon that evaluation, the CEO and CFO have concluded that, as of June 30, 2010, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

During the six months ended June 30, 2010, 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.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 16 in the Notes to Unaudited Consolidated Financial Statements contained herein for the information regarding our ongoing legal 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, 2009 the risk factors which 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, 2009 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 also may 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 and six months ended June 30, 2010, we acquired 5,472 shares of common stock from employees in connection with withholding tax payments related to the vesting of restricted stock for a total consideration of approximately $92,500. The purchase price of $16.96 per share was the average of the high and low price of the our shares of common stock on the Nasdaq Global Select Market on the trading day prior to the vesting date of the shares of restricted stock. These shares are held as treasury stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

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

10.1	Amendment, effective June 2, 2010, to the Amended and Restated Employment and Non-Competition Agreement, dated December 16, 2008 between Vikram Talwar and ExlService Holdings, Inc.
31.1	Certification of the Executive Chairman 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 President and 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.
31.3	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 Executive Chairman 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 President and 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.
32.3	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.

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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.

EXLSERVICE HOLDINGS, INC.

Date: August 9, 2010

By: /S/ VISHAL CHHIBBAR

Vishal Chhibbar
Chief Financial Officer
(Duly Authorized Signatory, Principal Financial and Accounting Officer)

Exhibit 10.1

AMENDMENT TO

AMENDED AND RESTATED EMPLOYMENT LETTER

The Amended and Restated Employment And Non-Competition Agreement (the "Employment Agreement"), dated as of December 16, 2008, between ExlService Holdings, Inc. (the "Company") and Vikram Talwar, is hereby amended as follows, effective as of the date set forth below unless provided otherwise herein:

1. Section 2 of the Employment Agreement is hereby amended by adding the following immediately at the end thereof:

"Notwithstanding the foregoing, either party hereto may end the Employment Term on March 31, 2011 by giving advance written notice to the other party at any time prior to October 1, 2010, and any such termination of employment shall be treated as a termination of Executive's employment pursuant to Section 7(c) hereof and not as a termination without Cause pursuant to Section 7(d) hereof."

2. The last sentence of Section 3(a) of the Employment Agreement is hereby amended to read in its entirety as follows:

"The Executive shall be based at the Company's executive offices in the Republic of India until March 31, 2009. On and after April 1, 2009, the Executive shall not be required to be based in the Republic of India, and shall be expected to spend the majority of his business time in the United States and the United Kingdom."

3. The second sentence of Section 7(c) of the Employment Agreement is hereby amended to read in its entirety as follows:

"In addition, Executive's employment shall be terminated at the end of the Employment Term following (x) either party hereto giving the other a notice of its or his desire not to extend the Employment Term or (y) either party hereto giving the other advance written notice at any time prior to October 1, 2010 that the Employment Term shall end on March 31, 2011, in each case in accordance with Section 2 hereof."

4. The last sentence of Section 7(f) of the Employment Agreement is amended by replacing "the Effective Date" with "September 30, 2006".

5. Section 12(n) is amended in its entirety to read as follows:

"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. Solely with respect to taxes assessed by the Republic of India in respect of tax years ending on or before March 31, 2009, the Company shall provide Executive such additional

compensation, if any, as is reasonably necessary after payment by Executive of all taxes and related interest and penalties owed to the Republic of India as a result of Executive working and/or residing in the Republic of India 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. These equalization payments shall include a tax restoration payment that takes into account the impact of the reimbursements. For the avoidance of doubt, the Company's obligation to provide such equalization payments shall not be affected by whether Executive's Indian tax liability is fixed and determined at the time a regularly scheduled tax filing, return, report or payment to the Republic of India is due, or whether such liability is determined or assessed at a later time. 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."

6. Schedule 6 to the Employment Agreement is amended by revising clause (i) of Item 3 thereof to read as follows:

"(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 $1,200 per month; provided that if such automobile is purchased by the Executive during the Employment Term, the Company shall thereafter pay the Executive during the remainder of the Employment Term an amount each month equal to the monthly amount of such lease or loan payments that were being paid by the Company immediately prior to such purchase by the Executive;"

7. Schedule 6 to the Employment Agreement is amended by adding the following Item 10 to the end thereof:

"10. During Executive's travel to the United Kingdom in connection with Company business while Executive's domicile is outside the United Kingdom, Executive shall be provided a $275 per diem billeting allowance for each night Executive does not stay in a hotel."

8. Continuing Effect of the Employment Agreement. Except as expressly modified hereby, the provisions of the Employment Agreement are and shall remain in full force and effect.

IN WITNESS HEREOF, the undersigned have acknowledged and executed this amendment to the Employment Agreement on June 2, 2010.

EXLSERVICE HOLDINGS, INC.

By: /s/ Amit Shashank
Name: Amit Shashank
Title: Vice President and General Counsel

/s/ Vikram Talwar
Vikram Talwar

Exhibit 31.1

SECTION 302 CERTIFICATION

I, Vikram Talwar, 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 officers 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 officers 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: August 9, 2010

/S/ VIKRAM TALWAR

Vikram Talwar
Executive Chairman

Exhibit 31.2

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 officers 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 officers 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: August 9, 2010

/S/ ROHIT KAPOOR

Rohit Kapoor
President and Chief Executive Officer

Exhibit 31.3

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 officers 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 officers 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: August 9, 2010

/S/ VISHAL CHHIBBAR

Vishal Chhibbar
Chief Financial Officer

Exhibit 32.1

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 ending June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Vikram Talwar, Executive Chairman 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/ VIKRAM TALWAR

Vikram Talwar
Executive Chairman

Date: August 9, 2010

Exhibit 32.2

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 ending June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rohit Kapoor, President 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

Rohit Kapoor
President and Chief Executive Officer

Date: August 9, 2010

Exhibit 32.3

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 ending June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vishal Chhibbar, 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

Vishal Chhibbar
Chief Financial Officer

Date: August 9, 2010