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 SEPTEMBER 30, 2017
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, 38 TH 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 October 24, 2017, there were 33,942,974 shares of the registrant's common stock outstanding, par value $0.001 per share.

TABLE OF CONTENTS

Table of Contents

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EXLSERVICE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	As of	
	September 30, 2017	December 31, 2016
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 87,665	$ 213,155
Short-term investments	161,702	13,491
Restricted cash	1,913	3,846
Accounts receivable, net	133,862	113,067
Prepaid expenses	6,958	7,855
Advance income tax, net	8,821	6,242
Other current assets	22,333	21,168
Total current assets	423,254	378,824
Property, plant and equipment, net	63,729	49,029
Restricted cash	3,710	3,393
Deferred taxes, net	16,118	14,799
Intangible assets, net	43,568	53,770
Goodwill	187,953	186,770
Other assets	30,672	19,943
Total assets	$ 769,004	$ 706,528
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 3,834	$ 3,288
Short-term borrowings	—	10,000
Deferred revenue	8,662	16,615
Accrued employee cost	49,385	50,832
Accrued expenses and other current liabilities	49,040	43,264
Current portion of capital lease obligations	168	232
Total current liabilities	111,089	124,231
Long term borrowings	45,000	35,000
Capital lease obligations, less current portion	315	300
Non-current liabilities	16,234	14,819
Total liabilities	172,638	174,350
Commitments and contingencies (See Note 21)		
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, 36,525,692 shares issued and 33,804,962 shares outstanding as of September 30, 2017 and 35,699,819 shares issued and 33,628,109 shares outstanding as of December 31, 2016	37	36
Additional paid-in capital	311,691	284,646
Retained earnings	436,419	382,722
Accumulated other comprehensive loss	(59,290)	(75,057)
Total including shares held in treasury	688,857	592,347
Less: 2,720,730 shares as of September 30, 2017 and 2,071,710 shares as of December 31, 2016, held in treasury, at cost	(92,698)	(60,362)
Stockholders’ equity	$ 596,159	$ 531,985
Non-controlling interest	207	193
Total equity	$ 596,366	$ 532,178
Total liabilities and equity	$ 769,004	$ 706,528

See accompanying notes to unaudited consolidated financial statements.

EXLSERVICE HOLDINGS, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share and per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues, net	$ 192,345	$ 171,200	$ 564,435	$ 508,714
Cost of revenues (exclusive of depreciation and amortization)	124,890	111,767	370,458	332,172
Gross profit	67,455	59,433	193,977	176,542
Operating expenses:				
General and administrative expenses	26,870	21,854	75,809	63,620
Selling and marketing expenses	12,222	11,623	38,711	37,875
Depreciation and amortization	9,708	8,597	28,771	25,000
Total operating expenses	48,800	42,074	143,291	126,495
Income from operations	18,655	17,359	50,686	50,047
Foreign exchange gain, net	2,801	1,741	7,267	3,573
Interest expense	(482)	(295)	(1,379)	(1,023)
Other income, net	2,922	2,891	8,871	12,197
Income before income tax expense	23,896	21,696	65,445	64,794
Income tax expense	2,819	5,646	7,202	18,549
Net income	$ 21,077	$ 16,050	$ 58,243	$ 46,245
Earnings per share:				
Basic	$ 0.62	$ 0.48	$ 1.72	$ 1.38
Diluted	$ 0.60	$ 0.46	$ 1.66	$ 1.34
Weighted-average number of shares used in computing earnings per share:				
Basic	33,838,374	33,624,401	33,834,392	33,542,258
Diluted	35,043,987	34,675,485	35,048,672	34,512,815

See accompanying notes to unaudited consolidated financial statements.

EXLSERVICE HOLDINGS, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
Net income	$ 21,077	$ 16,050	$ 58,243	$ 46,245
Other comprehensive income:				
Unrealized (loss)/gain on effective cash flow hedges, net of taxes ($162), $1,067, $2,874 and $1,094, respectively	(557)	2,540	5,900	3,066
Foreign currency translation adjustment	(3,030)	1,716	10,813	(2,652)
Retirement benefits, net of taxes nil, $4, nil and $24, respectively	—	104	—	409
Reclassification adjustments				
Realized gain on cash flow hedges, net of taxes ($129), ($205), ($476) and ($386), respectively(1)	(294)	(261)	(1,081)	(486)
Retirement benefits, net of taxes $30, $1, $77 and $3, respectively(2)	42	22	135	64
Total other comprehensive income/(loss)	$ (3,839)	$ 4,121	$ 15,767	$ 401
Total comprehensive income	$ 17,238	$ 20,171	$ 74,010	$ 46,646

(1) These are reclassified to net income and are included in the foreign exchange gain in the unaudited consolidated statements of income. See Note 13 to the unaudited consolidated financial statements.

(2) These are reclassified to net income and are included in the computation of net periodic pension costs in the unaudited consolidated statements of income. See Note 16 to the unaudited consolidated financial statements.

See accompanying notes to unaudited consolidated financial statements.

EXLSERVICE HOLDINGS, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Cash flows from operating activities:		
Net income	$ 58,243	$ 46,245
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,771	25,000
Stock-based compensation expense	16,771	14,743
Unrealized gain on short term investments	(4,437)	(4,955)
Change in fair value of earn-out consideration	—	(4,060)
Unrealized foreign exchange loss/(gain)	446	(147)
Deferred income tax (benefit)/expense	(5,417)	4,424
Allowances for doubtful accounts	2,706	37
Others, net	12	(84)
Change in operating assets and liabilities:		
Restricted cash	1,757	(464)
Accounts receivable	(22,064)	(16,559)
Prepaid expenses and other current assets	5,194	(587)
Accounts payable	371	(2,518)
Deferred revenue	(8,155)	(1,485)
Accrued employee costs	(915)	(3,812)
Accrued expenses and other liabilities	267	5,688
Advance income tax, net	(2,607)	(4,748)
Other assets	1,241	(676)
Net cash provided by operating activities	72,184	56,042
Cash flows from investing activities:		
Purchase of property, plant and equipment	(26,759)	(20,335)
Business acquisition (net of cash acquired)	(724)	(9,427)
Purchase of investments	(197,897)	(155,709)
Proceeds from redemption of investments	54,238	59,229
Net cash used for investing activities	(171,142)	(126,242)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(133)	(292)
Repayments of borrowings	—	(25,000)
Acquisition of treasury stock	(32,336)	(15,169)
Proceeds from exercise of stock options	4,275	6,226
Net cash used for financing activities	(28,194)	(34,235)
Effect of exchange rate changes on cash and cash equivalents	1,662	(2,514)
Net decrease in cash and cash equivalents	(125,490)	(106,949)
Cash and cash equivalents, beginning of period	213,155	205,323
Cash and cash equivalents, end of period	$ 87,665	$ 98,374

See accompanying notes to unaudited consolidated financial statements.

EXLSERVICE HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017
(In thousands, except share and per share amounts)

1. 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”), operates in the Business Process Management (“BPM”) industry providing operations management services and analytics services that help businesses enhance growth and profitability. Using its proprietary platforms, methodologies and tools, the Company looks deeper to help its clients improve global operations, enhance data-driven insights, increase customer satisfaction, and manage risk and compliance. The Company’s clients are located principally in the U.S. and the U.K.

2. Summary of Significant Accounting Policies

(a) Basis of Preparation and Principles of Consolidation

The unaudited interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“US GAAP”) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by US GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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

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.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to the parent and it represents the minority partner’s interest in the operations of ExlService Colombia S.A.S. Non-controlling interest consists of the amount of such interest at the date of obtaining control over the subsidiary, and the non-controlling interest's share of changes in equity since that date. The non-controlling interest in the operations for all the periods presented were insignificant and are included under general and administrative expenses in the unaudited consolidated statements of income.

(b) Use of Estimates

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

(c) Share-Based Compensation

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718). ASU No. 2016-09 identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the Statement of Cash Flows. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The Company adopted this ASU effective January 1, 2017. The following summarizes the effects of the adoption on the Company's unaudited consolidated financial statements:

Income taxes - Upon adoption of this standard, all excess tax benefits and tax deficiencies are recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards are treated as discrete items in the reporting period in which they occur. The Company also recognizes excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. As a result, the Company recognized discrete adjustments to income tax expense for the three months ended September 30, 2017 in the amount of $3,488 and for the nine months ended September 30, 2017 in the amount of $7,169 related to excess tax benefits. No adjustment is recorded for any windfall benefits previously recorded in Additional Paid-In Capital.

Forfeitures - Prior to adoption, share-based compensation expense was recognized on a straight line basis, net of estimated forfeitures, such that expense was recognized only for share-based awards that are expected to vest. A forfeiture rate was estimated annually and revised, if necessary, in subsequent periods if actual forfeitures differed from initial estimates. Upon adoption, the Company will no longer apply a forfeiture rate and instead will account for forfeitures as they occur. The Company has applied the modified retrospective adoption approach as of January 1, 2017 and has recognized a cumulative-effect adjustment to reduce additional paid-in-capital of $5,999 and retained earnings of $4,546 (net of deferred tax effect of $1,453).

Statements of Cash Flows - The Company historically accounted for excess tax benefits on the Statement of Cash Flows as a financing activity. Upon adoption of this standard, excess tax benefits are classified along with other income tax cash flows as an operating activity. The Company has elected to adopt this portion of the standard on a prospective basis beginning in 2017 and accordingly prior periods have not been adjusted.

Earnings Per Share - The Company uses the treasury stock method to compute diluted earnings per share, unless the effect would be anti-dilutive. The Company excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of diluted earnings per share.

(d) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, “Revenue from Contracts with Customers”. This standard update along with subsequently issued updates, clarifies the principles for recognizing revenue and develops a common revenue standard for United States generally accepted accounting principles (GAAP) and is effective for reporting periods beginning after December 15, 2017. The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services ("performance obligations") are transferred to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services ("transaction price"). Adoption of the new rules could impact the timing of revenue recognition for certain contracts. ASU 2014-09 is effective for the Company in the first quarter of fiscal 2018 using either one of two methods: (i) retrospectively to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09 (modified retrospective method).

The Company is evaluating the impact of the new standard. The ultimate impact on revenue resulting from the application of the new standard will be subject to assessments that are dependent on many variables, including, but not limited to, the terms of the contractual arrangements and the mix of business. Upon adoption, the Company expect that variable consideration when present in a revenue arrangements will need to be estimated based on its achievability and recognized over the contractual period as compared to recognizing such revenue as the services are performed. The Company also expects a change in the manner that it recognizes certain incremental and fulfillment costs from expensing them as incurred to deferring and recognizing them over the contractual period.

The Company intends to adopt the new standard, effective January 1, 2018, using the modified retrospective method. The Company's considerations include, but are not limited to, the comparability of its financial statements and the comparability within its industry from application of the new standard to its contractual arrangements. The Company has established an implementation team to implement the standard update related to the recognition of revenue from contracts with customers and continues to evaluate the changes to accounting system and processes, and additional disclosure requirements that may be necessary.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net). ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires the identification of arrangements that should be accounted for as leases by lessees. In general, for lease arrangements exceeding a twelve month term, these arrangements must now be recognized as assets and liabilities on the balance sheet of the lessee. Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption of ASU 2016-02 must be calculated using the applicable incremental borrowing rate at the date of adoption. In addition, ASU 2016-02 requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements and the implementation approach to be used.

In June 2016, FASB issued ASU 2016-13, Financial Instruments - Credit Losses, which require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is to be deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The amendment should be applied through a modified retrospective approach. Early adoption as of the fiscal years beginning after December 15, 2018 is permitted. The adoption of ASU 2016-13 is not expected to have a material effect on the Company's consolidated financial statements.

In August 2016, FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The amendments apply to all entities that are required to present a Statement of Cash Flows under Topic 230. The amendments are an improvement to GAAP because they provide guidance for each of eight issues identified therein, thereby reducing the current and potential future diversity in practice. The amendments are effective for fiscal years beginning after December 15, 2017 and interim periods within those annual periods and should be applied using a retrospective transition method to each period presented. The Company does not expect the adoption of this ASU to have a material effect on its financial position or results of operations.

In November 2016, FASB issued ASU 2016-18, Statement of Cash Flows - Restricted cash. The amendments apply to all entities that have restricted cash or restricted cash equivalents and are required to present a Statement of Cash Flows under Topic 230. The amendments in this update require that a Statement of Cash Flows should explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments are effective for fiscal years beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted with an adjustment reflected as of the beginning of the fiscal year in which the amendment is adoption. The Company does not expect the adoption of this ASU to have a material effect on its financial position or results of operations.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment (Topic 350), which eliminates Step 2 from the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017 and should be applied prospectively. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In March, 2017, FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost. The ASU amends ASC 715, Compensation — Retirement Benefits, to require employers that present a measure of operating income in their statement of income to include only the service cost component of net periodic pension cost and net periodic post-retirement benefit cost in operating expenses (together with other employee compensation costs). The other components of net benefit cost, including amortization of prior service cost/credit, and settlement and curtailment effects, are to be included in non-operating expenses. The update also stipulates that only the service cost component of net benefit cost is eligible for capitalization. The amendments are effective for fiscal years beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

In May 2017, FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. Modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the change in terms or conditions. The amendments in this ASU are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

In August 2017, FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in their financial statements. The amendments are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption being permitted. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

3. Segment and Geographical Information

The Company operates in the BPM industry and is a provider of operations management and analytics services. The Company has eight operating segments, which are strategic business units that align its products and services with how it manages its business, approaches its key markets and interacts with its clients. Six of those operating segments provide BPM or “operations management” services, which the Company organizes into industry-focused operating segments (Insurance, Healthcare, Travel, Transportation and Logistics, Banking and Financial Services, and Utilities) and one “capability” operating segment (Finance and Accounting) that provides services to clients in industry-focused segments as well as clients across other industries. In each of these six operating segments, the Company provides operations management services, which typically involve transfer to the Company of select business operations of a client, after which it administers and manages those operations for its client on an ongoing basis. The remaining two operating segments are Consulting, which provides industry-specific transformational services related to operations management services, and the Analytics operating segment, which provides services that focus on driving improved business outcomes for clients by generating data-driven insights across all parts of their business.

In prior periods the Company presented two reportable segments: Operations Management (which included its Insurance, Healthcare, Travel, Transportation and Logistics, Finance and Accounting, Banking and Financial services, Utilities and Consulting operating segments) and Analytics. Effective for the quarter and year ended December 31, 2016, the Company presents information for the following reportable segments:

• Insurance
• Healthcare
• Travel, Transportation and Logistics (“TT&L”)
• Finance and Accounting (“F&A”), and
• Analytics

The remaining operating segments, which includes the banking and financial services, utilities and consulting operating segments have been included in a category called “All Other”. Segment information for all prior periods presented herein has been changed to conform to the current presentation. This change in segment presentation does not affect the Company's unaudited consolidated statements of income and comprehensive income, balance sheets or statements of cash flows.

(In thousands, except share and per share amounts)

Table of Contents

The chief operating decision maker ("CODM") generally reviews financial information such as revenues, cost of revenues and gross profit, disaggregated by the operating segments to allocate an overall budget among the operating segments.

The Company does not allocate and therefore the CODM does not evaluate other operating expenses, interest expense or income taxes by segment. Many of the Company's assets are shared by multiple operating segments. The Company manages these assets on a total Company basis, not by operating segment, and therefore asset information and capital expenditures by operating segment are not presented.

Revenues and cost of revenues for the three months ended September 30, 2017 and 2016, respectively, for each of the reportable segments, are as follows:

	Three months ended September 30, 2017						
	Insurance	Healthcare	TT&L	F&A	All Other	Analytics	Total
Revenues, net	$ 59,608	$ 18,871	$ 18,496	$ 21,642	$ 19,984	$ 53,744	$ 192,345
Cost of revenues (exclusive of depreciation and amortization)	39,699	11,966	10,135	13,310	13,629	36,151	124,890
Gross profit	$ 19,909	$ 6,905	$ 8,361	$ 8,332	$ 6,355	$ 17,593	$ 67,455
Operating expenses							48,800
Foreign exchange gain, interest expense and other income, net							5,241
Income tax expense							2,819
Net income							$ 21,077

	Three months ended September 30, 2016						
	Insurance	Healthcare	TT&L	F&A	All Other	Analytics	Total
Revenues, net	$ 52,801	$ 15,959	$ 17,519	$ 19,858	$ 23,426	$ 41,637	$ 171,200
Cost of revenues (exclusive of depreciation and amortization)	37,797	10,887	10,637	12,012	14,655	25,779	111,767
Gross profit	$ 15,004	$ 5,072	$ 6,882	$ 7,846	$ 8,771	$ 15,858	$ 59,433
Operating expenses							42,074
Foreign exchange gain, interest expense and other income, net							4,337
Income tax expense							5,646
Net income							$ 16,050

EXLSERVICE HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(continued)
September 30, 2017
(In thousands, except share and per share amounts)

Revenues and cost of revenues for the nine months ended September 30, 2017 and 2016, respectively, for each of the reportable segments, are as follows:

	Nine months ended September 30, 2017						
	Insurance	**Healthcare**	**TT&L**	**F&A**	**All Other**	**Analytics**	**Total**
Revenues, net	$ 173,784	$ 56,726	$ 53,374	$ 63,694	$ 62,547	$ 154,310	$ 564,435
Cost of revenues (exclusive of depreciation and amortization)	119,004	36,402	30,832	39,163	42,770	102,287	370,458
Gross profit	$ 54,780	$ 20,324	$ 22,542	$ 24,531	$ 19,777	$ 52,023	$ 193,977
Operating expenses							143,291
Foreign exchange gain, interest expense and other income, net							14,759
Income tax expense							7,202
Net income							$ 58,243

	Nine months ended September 30, 2016						
	Insurance	**Healthcare**	**TT&L**	**F&A**	**All Other**	**Analytics**	**Total**
Revenues, net	$ 151,696	$ 49,788	$ 52,623	$ 58,961	$ 75,434	$ 120,212	$ 508,714
Cost of revenues (exclusive of depreciation and amortization)	108,516	32,440	31,901	35,385	47,836	76,094	332,172
Gross profit	$ 43,180	$ 17,348	$ 20,722	$ 23,576	$ 27,598	$ 44,118	$ 176,542
Operating expenses							126,495
Foreign exchange gain, interest expense and other income, net							14,747
Income tax expense							18,549
Net income							$ 46,245

Net revenues of the Company by service type, were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
BPM and related services [(1)]	$ 138,601	$ 129,563	$ 410,125	$ 388,502
Analytics services	53,744	41,637	154,310	120,212
Total	$ 192,345	$ 171,200	$ 564,435	$ 508,714

(1) BPM and related services include revenues of the Company's five industry-focused operating segments, one capability operating segment and consulting operating segment, which provides services related to operations management services. See reportable segment disclosure above.

(In thousands, except share and per share amounts)

The Company attributes the revenues to regions based upon the location of its customers.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues, net				
United States	$ 158,501	$ 137,047	$ 462,676	$ 407,272
Non-United States				
United Kingdom	26,824	27,993	81,857	84,284
Rest of World	7,020	6,160	19,902	17,158
Total Non-United States	33,844	34,153	101,759	101,442
	$ 192,345	$ 171,200	$ 564,435	$ 508,714

Property, plant and equipment by geographic area, were as follows:

	As of	
	September 30, 2017	December 31, 2016
Property, plant and equipment, net		
India	$ 37,139	$ 23,362
United States	14,829	10,809
Philippines	9,031	11,900
Rest of World	2,730	2,958
	$ 63,729	$ 49,029

4. Earnings Per Share

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Numerators:				
Net income	$ 21,077	$ 16,050	$ 58,243	$ 46,245
Denominators:				
Basic weighted average common shares outstanding	33,838,374	33,624,401	33,834,392	33,542,258
Dilutive effect of share based awards	1,205,613	1,051,084	1,214,280	970,557
Diluted weighted average common shares outstanding	35,043,987	34,675,485	35,048,672	34,512,815
Earnings per share:				
Basic	$ 0.62	$ 0.48	$ 1.72	$ 1.38
Diluted	$ 0.60	$ 0.46	$ 1.66	$ 1.34
Weighted average common shares considered anti-dilutive in computing diluted earnings per share	—	32,516	151,961	97,574

(In thousands, except share and per share amounts)

5. Other Income, net

Other income, net consists of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Interest and dividend income	$ 322	$ 354	$ 1,317	$ 1,208
Gain on mutual fund investments	2,556	2,562	6,777	6,191
Change in fair value of earn-out consideration	—	—	—	4,060
Other, net	44	(25)	777	738
Other income, net	$ 2,922	$ 2,891	$ 8,871	$ 12,197

6. Property, Plant and Equipment

Property, Plant and Equipment consist of the following:

	Estimated useful lives	As of	
	(Years)	September 30, 2017	December 31, 2016
Owned Assets:			
Network equipment and computers	3-5	$ 73,728	$ 65,381
Software	3-5	56,369	44,617
Leasehold improvements	3-8	36,741	31,192
Office furniture and equipment	3-8	18,397	15,426
Motor vehicles	2-5	645	580
Buildings	30	1,218	1,171
Land	—	797	766
Capital work in progress	—	9,624	4,964
		197,519	164,097
Less: Accumulated depreciation and amortization		(134,245)	(115,568)
		$ 63,274	$ 48,529
Assets under capital leases:			
Leasehold improvements		$ 889	$ 854
Office furniture and equipment		138	133
Motor vehicles		644	810
		1,671	1,797
Less: Accumulated depreciation and amortization		(1,216)	(1,297)
		$ 455	$ 500
Property, Plant and Equipment, net		$ 63,729	$ 49,029

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

(In thousands, except share and per share amounts)

The depreciation and amortization expense excluding amortization of acquisition-related intangibles was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Depreciation and amortization expense	$ 6,221	$ 5,749	$ 18,279	$ 16,719

Software - Internally developed:

	As of	
	September 30, 2017	December 31, 2016
Cost	$ 2,364	$ 2,242
Less : Accumulated amortization expense	791	336
	$ 1,573	$ 1,906

7. Goodwill and Intangible Assets

Goodwill

The following table sets forth details of the Company's goodwill balance as of September 30, 2017:

	Insurance	Healthcare	TT&L	F&A	All Other	Analytics	Total
Balance as at January 1, 2016	$ 35,824	$ 19,276	$ 13,278	$ 47,891	$ 5,326	$ 49,940	$ 171,535
Acquisitions	2,510	—	—	—	—	13,598	16,108
Currency translation adjustments	(224)	—	(295)	(354)	—	—	(873)
Balance as at December 31, 2016	$ 38,110	$ 19,276	$ 12,983	$ 47,537	$ 5,326	$ 63,538	$ 186,770
Currency translation adjustments	204	—	445	534	—	—	1,183
Balance as at September 30, 2017	$ 38,314	$ 19,276	$ 13,428	$ 48,071	$ 5,326	$ 63,538	$ 187,953

(In thousands, except share and per share amounts)

Intangible Assets

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

	As of September 30, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:			
Customer relationships	$ 75,372	$ (40,975)	$ 34,397
Leasehold benefits	2,826	(2,490)	336
Developed technology	14,314	(8,177)	6,137
Non-compete agreements	2,045	(1,739)	306
Trade names and trademarks	5,379	(3,887)	1,492
	$ 99,936	$ (57,268)	$ 42,668
Indefinite-lived intangible assets:			
Trade names and trademarks	$ 900	$ —	$ 900
Total intangible assets	$ 100,836	$ (57,268)	$ 43,568

	As of December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:			
Customer relationships	$ 75,181	$ (32,968)	$ 42,213
Leasehold benefits	2,715	(2,247)	468
Developed technology	14,186	(6,468)	7,718
Non-compete agreements	2,045	(1,612)	433
Trade names and trademarks	5,360	(3,322)	2,038
	$ 99,487	$ (46,617)	$ 52,870
Indefinite-lived intangible assets:			
Trade names and trademarks	$ 900	$ —	$ 900
Total intangible assets	$ 100,387	$ (46,617)	$ 53,770

The amortization expenses is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Amortization expense	$ 3,487	$ 2,848	$ 10,492	$ 8,281

The remaining weighted average life of intangible assets is as follows:

	(in years)
Customer relationships	5.15
Leasehold benefits	1.67
Developed technologies	3.77
Non-compete agreements	1.93
Trade names and trademarks (Finite lived)	5.23

(In thousands, except share and per share amounts)

Estimated amortization of intangible assets during the next twelve months ending September 30,	
2018	$ 12,667
2019	11,947
2020	5,705
2021	3,207
2022	2,461
2023 and thereafter	6,681
Total	$ 42,668

8. Other current assets

Other current assets consists of the following:

	As of	
	September 30, 2017	December 31, 2016
Derivative instruments	$ 8,236	$ 3,324
Advances to suppliers	3,681	1,091
Receivables from statutory authorities	5,784	11,870
Others	4,632	4,883
Other current assets	$ 22,333	$ 21,168

9. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consists of the following:

	As of	
	September 30, 2017	December 31, 2016
Accrued expenses	$ 39,250	$ 30,690
Derivative instruments	1,330	1,430
Client liability account	2,090	4,005
Others	6,370	7,139
Accrued expenses and other current liabilities	$ 49,040	$ 43,264

10. Non-current liabilities

Non-current liabilities consists of the following:

	As of	
	September 30, 2017	December 31, 2016
Derivative instruments	$ 1,553	$ 828
Unrecognized tax benefits	692	3,640
Deferred rent	7,890	7,237
Retirement benefits	2,917	1,977
Others	3,182	1,137
Non-current liabilities	$ 16,234	$ 14,819

(In thousands, except share and per share amounts)

11. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists of amortization of actuarial gain / (loss) on retirement benefits and changes in the cumulative foreign currency translation adjustments. In addition, the Company enters into foreign currency exchange contracts, which are designated as cash flow hedges in accordance with ASC topic 815 "Derivatives and Hedging" ("ASC No. 815"). Changes in the fair values of contracts that are deemed effective are recorded as a component of accumulated other comprehensive loss until the settlement of those contracts. The balances as of September 30, 2017 and December 31, 2016 are as follows:

	As of	
	September 30, 2017	December 31, 2016
Cumulative currency translation adjustments	$ (66,486)	$ (77,299)
Unrealized gain on cash flow hedges, net of taxes of $3,605 and $1,207	7,559	2,740
Retirement benefits, net of taxes of ($265) and ($342)	(363)	(498)
Accumulated other comprehensive loss	$ (59,290)	$ (75,057)

12. Fair Value Measurements

Assets and Liabilities Measured at Fair Value

The following table sets forth the Company's assets and liabilities that were accounted for at fair value as of September 30, 2017 and December 31, 2016. The table excludes accounts receivable, accounts payable and accrued expenses for which fair values approximate their carrying amounts.

As of September 30, 2017	Level 1	Level 2	Level 3	Total
Assets				
Money market and mutual funds*	$ 146,477	$ —	$ —	$ 146,477
Derivative financial instruments	—	14,395	—	14,395
Total	$ 146,477	$ 14,395	$ —	$ 160,872
Liabilities				
Derivative financial instruments	$ —	$ 2,883	$ —	$ 2,883
Total	$ —	$ 2,883	$ —	$ 2,883

As of December 31, 2016	Level 1	Level 2	Level 3	Total
Assets				
Money market and mutual funds	$ —	$ —	$ —	$ —
Derivative financial instruments	—	6,318	—	6,318
Total	$ —	$ 6,318	$ —	$ 6,318
Liabilities				
Derivative financial instruments	$ —	$ 2,258	$ —	$ 2,258
Total	$ —	$ 2,258	$ —	$ 2,258

* Represents short-term investments carried on fair value option under ASC 825 "Financial Instruments" as of September 30, 2017.

(In thousands, except share and per share amounts)

Derivative Financial Instruments: The Company’s derivative financial instruments consist of foreign currency forward exchange contracts. Fair values for derivative financial instruments are based on independent sources including highly rated financial institutions and are classified as Level 2. See Note 13 to the unaudited consolidated financial statements contained herein for further details on Derivatives and Hedge Accounting.

13. Derivatives and Hedge Accounting

The Company uses derivative instruments and hedging transactions to mitigate exposure to foreign currency fluctuation risks associated with forecasted transactions denominated in certain foreign currencies and to minimize earnings and cash flow volatility associated with changes in foreign currency exchange rates. The Company’s derivative financial instruments are largely foreign exchange forward contracts that are designated effective and that qualify as cash flow hedges under ASC 815. The Company had outstanding cash flow hedges totaling $297,643 (including $1,500 of range forward contracts) as of September 30, 2017 and $218,545 as of December 31, 2016. The fair value of these cash flow hedges is included in the other comprehensive loss on the Company's unaudited consolidated balance sheet.

The Company also enters into foreign currency forward contracts to economically hedge its intercompany balances and other monetary assets and liabilities denominated in currencies other than functional currencies. These derivatives do not qualify as fair value hedges under ASC 815. Changes in the fair value of these derivatives are recognized in the unaudited consolidated statements of income and are included in foreign exchange gain/loss. The Company’s primary exchange rate exposure is with the Indian Rupee, the U.K. Pound sterling and the Philippine peso. The Company also has exposure to Colombian pesos, Czech Koruna, Euro, South African Rand and other local currencies in which it operates. Outstanding foreign currency forward contracts amounted to $91,523 and GBP 17,244 as of September 30, 2017 and amounted to $63,980 and GBP 17,974 as of December 31, 2016.

The Company estimates that approximately $6,839 of net derivative gains included in accumulated other comprehensive loss (“AOCL”) could be reclassified into earnings within the next twelve months based on exchange rates prevailing as of September 30, 2017. At September 30, 2017, the maximum outstanding term of the cash flow hedges was forty-five 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 hedging positions that are discontinued because the forecasted transaction is not expected to occur by the end of the originally specified period, any related derivative amounts recorded in equity are reclassified to earnings. There were no such significant amounts of gains or losses that were reclassified from AOCL into earnings during the three and nine months ended September 30, 2017 and 2016.

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

Derivatives designated as hedging instruments:

	As of	
	September 30, 2017	December 31, 2016
Other current assets:		
Foreign currency exchange contracts	$ 8,122	$ 3,211
Other assets:		
Foreign currency exchange contracts	$ 6,159	$ 2,994
Accrued expenses and other current liabilities:		
Foreign currency exchange contracts	$ 1,283	$ 1,430
Non-current liabilities:		
Foreign currency exchange contracts	$ 1,553	$ 828

(In thousands, except share and per share amounts)

Derivatives not designated as hedging instruments:

	As of	
	September 30, 2017	December 31, 2016
Other current assets:		
Foreign currency exchange contracts	$ 114	$ 113
Accrued expenses and other current liabilities:		
Foreign currency exchange contracts	$ 47	$ —

The following tables set forth the effect of foreign currency exchange contracts on the unaudited consolidated statements of income for the three and nine months ended September 30, 2017 and 2016:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Derivatives in Cash flow hedging relationship				
Gain/(loss) recognized in AOCL on derivative - Effective portion	$ (719)	$ 3,607	$ 8,774	$ 4,160
Gain/(loss) reclassified from AOCL to foreign exchange gain/(loss) - Effective portion	$ 423	$ 466	$ 1,557	$ 872
Gain/(loss) recognized in foreign exchange gain/(loss) - Ineffective portion	$ —	$ —	$ —	$ —
Derivatives not designated as hedging instruments				
Gain/(loss) recognized in foreign exchange gain/(loss)	$ (678)	$ 1,382	$ 2,095	$ 4,110

14. Borrowings

The Company has a revolving credit facility (the “Credit Facility”), including a letter of credit sub-facility, in the amount of $100,000. The Credit Facility has a maturity date of October 24, 2019 and is voluntarily pre-payable from time to time without premium or penalty.

Borrowings under the Credit Facility may be used for working capital, general corporate purposes and for acquisitions. The amount outstanding as of September 30, 2017 is $45,000 which is included under “long-term borrowings” in the unaudited consolidated balance sheets. The Credit Facility carried an effective interest rate of 2.9% per annum and 2.2% per annum, during the three months ended September 30, 2017 and 2016, respectively, and for the nine months ended September 30, 2017 and 2016 it was 2.7% per annum and 2.0% per annum, respectively.

In connection with the financing, the Company incurred certain debt issuance costs, which are deferred and amortized as an adjustment to interest expense over the term of the Credit Facility. The unamortized debt issuance costs as of September 30, 2017 and December 31, 2016 was $200 and $272, respectively, and is included under “other current assets” and “other assets” in the unaudited consolidated balance sheets.

The Credit Facility is guaranteed by the Company's domestic subsidiaries and material foreign subsidiaries and is secured by all or substantially all of the assets of the Company and its material domestic subsidiaries. The Credit Agreement governing the Credit Facility contains certain covenants including a restriction on our indebtedness, and a covenant to not permit the interest coverage ratio (the ratio of EBIT to cash interest expense) to be less than 3.5 to 1.0 or the leverage ratio (total funded indebtedness to EBITDA) to be greater than 2.5 to 1.0, for the four consecutive quarter period ending on the last day of each fiscal quarter. As of September 30, 2017, the Company was in compliance with the financial covenants listed above.

15. Capital Structure

Common Stock

The Company has one class of common stock outstanding.

During the three months ended September 30, 2017 and 2016, the Company did not acquire any shares of common stock from employees in connection with withholding tax payments related to the vesting of restricted stock.

During the nine months ended September 30, 2017 and 2016, the Company acquired 65,003 and 16,027 shares of common stock, respectively, from employees in connection with withholding tax payments related to the vesting of restricted stock for a total consideration of $3,016 and $728, respectively. The weighted average purchase price per share of $46.40 and $45.44, respectively, was the average of the high and low price of the Company's share of common stock on the Nasdaq Global Select Market on the trading day prior to the vesting date of the shares of restricted stock.

On December 30, 2014, the Company's Board of Directors authorized a common stock repurchase program (the "2014 Repurchase Program"), under which shares were authorized to be purchased by the Company from time to time from the open market and through private transactions during each of the fiscal years 2015 through 2017 up to an annual amount of $20,000.

On February 28, 2017, the Company's Board of Directors authorized an additional common stock repurchase program (the "2017 Repurchase Program"), under which shares may be purchased by the Company from time to time from the open market and through private transactions during each of the fiscal years 2017 through 2019 up to an aggregate additional amount of $100,000. The approval increases the 2017 authorization from $20,000 to $40,000 and authorizes stock repurchases of up to $40,000 in each of 2018 and 2019.

During the three and nine months ended September 30, 2017, the Company purchased 160,033 and 584,017 shares of its common stock, respectively, for an aggregate purchase price of approximately $9,004 and $29,320, respectively, including commissions, representing an average purchase price per share of $56.26 and $50.20, respectively, under the 2014 and 2017 Repurchase Program.

During the three and nine months ended September 30, 2016, the Company purchased 108,143 and 302,953 shares of its common stock, respectively, for an aggregate purchase price of approximately $5,466 and $14,441, respectively, including commissions, representing an average purchase price per share of $50.54 and $47.67, respectively, under the 2014 Repurchase Program.

Repurchased shares have been recorded as treasury shares and will be held until the Board of Directors designates that these shares be retired or used for other purposes.

16. Employee Benefit Plans

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

In addition, the Company's subsidiary operating in the Philippines conforms to the minimum regulatory benefit which provide for lump sum payment to vested employees on retirement from employment in an amount based on the respective employee's salary and years of employment with the Company (the "Philippines Plan"). The benefit costs of the Philippines Plan for the year are calculated on an actuarial basis.

(In thousands, except share and per share amounts)

Net gratuity cost includes the following components:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Service cost	$ 491	$ 402	$ 1,469	$ 1,203
Interest cost	166	150	494	449
Expected return on plan assets	(112)	(104)	(330)	(312)
Amortization of actuarial loss	72	23	212	67
Net gratuity cost	$ 617	$ 471	$ 1,845	$ 1,407

The Gratuity Plan in India is partially funded and the Philippines plan is unfunded. The Company makes annual contributions to the employees' gratuity fund established with Life Insurance Corporation of India and HDFC Standard Life Insurance Company. They calculate the annual contribution required to be made by the Company and manage the Gratuity Plans, including any required payouts. Fund managers manage these funds on a cash accumulation basis and declare interest retrospectively on March 31 of each year. The Company earned a return of approximately 8.0% on these Gratuity Plans for the period ended September 30, 2017.

Change in Plan Assets	
Plan assets at January 1, 2017	$ 5,640
Actual return	341
Employer contribution	1,694
Benefits paid	(896)
Effect of exchange rate changes	227
Plan assets at September 30, 2017	$ 7,006

The Company maintains several 401(k) plans under Section 401(k) of the Internal Revenue Code of 1986 (the “Code”), covering all eligible employees, as defined in the Code as a defined contribution plan. The Company may make discretionary contributions of up to a maximum of 4% of employee compensation within certain limits. Contributions to the 401(k) plans amounting to $487 and $554 were made during the three months ended September 30, 2017 and 2016, respectively, and $2,051 and $1,945 during the nine months ended September 30, 2017 and 2016, respectively.

During the three months ended September 30, 2017 and 2016, the Company contributed $1,845 and $1,608, respectively, and during the nine months ended September 30, 2017 and 2016, the Company contributed $5,350 and $4,619, respectively, for various defined contribution plans on behalf of its employees in India, the Philippines, Bulgaria, Romania, the Czech Republic, South Africa, Colombia, and Singapore.

(In thousands, except share and per share amounts)

17. Leases

The Company finances its use of certain motor vehicles and other equipment under various lease arrangements provided by financial institutions. Future minimum lease payments under these capital leases as of September 30, 2017 are as follows:

During the next twelve months ending September 30,	
2018	$ 227
2019	173
2020	128
2021	72
Total minimum lease payments	600
Less: amount representing interest	117
Present value of minimum lease payments	483
Less: current portion	168
Long term capital lease obligation	$ 315

The Company conducts its operations using facilities leased under non-cancelable operating lease agreements that expire at various dates. Future minimum lease payments under non-cancelable agreements expiring after September 30, 2017 are set forth below:

During the next twelve months ending September 30,	
2018	$ 10,477
2019	8,470
2020	4,795
2021	3,189
2022	1,064
2023 and thereafter	933
	$ 28,928

Rent expense

The operating leases are subject to renewal periodically and have scheduled rent increases. The Company recognizes rent on such leases on a straight-line basis over cancelable and non-cancelable lease period determined under ASC topic 840, "Leases":

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Rent expense	$ 6,362	$ 5,445	$ 18,168	$ 15,871

Deferred rent

	As of	
	September 30, 2017	December 31, 2016
Cancelable and non - cancelable operating leases	$ 8,763	$ 7,915

Deferred rent is included under “Accrued expenses and other current liabilities” and “Non-current liabilities” in the unaudited consolidated balance sheets.

(In thousands, except share and per share amounts)

18. Income Taxes

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

The Company recorded income tax expense of $2,819 and $5,646 for the three months ended September 30, 2017 and 2016, respectively. The effective tax rate decreased from 26.0% during the three months ended September 30, 2016 to 11.8% as a result of (i) excess tax benefit related to stock awards of $3,488 pursuant to ASU No. 2016-09 during the three months ended September 30, 2017, (ii) higher earnings from foreign subsidiaries and lower domestic profit in the U.S., partially offset by higher tax expense on account of the expiration of a tax holiday for some of the operating centers in India.

The Company recorded income tax expense of $7,202 and $18,549 for the nine months ended September 30, 2017 and 2016, respectively. The effective tax rate decreased from 28.6% during the nine months ended September 30, 2016 to 11.0% as a result of (i) excess tax benefit related to stock awards of $7,169 pursuant to ASU No. 2016-09 during the nine months ended September 30, 2017, (ii) conclusion of an uncertain tax position of $3,153 (including interest of $1,433), (iii) higher earnings from foreign subsidiaries and lower domestic profit in the U.S., partially offset by higher tax expense on account of the expiration of a tax holiday for some of the operating centers in India.

The following table summarizes the activity related to the gross unrecognized tax benefits from January 1, 2017 through September 30, 2017:

Balance as of January 1, 2017	$	3,087
Increases related to prior year tax positions		—
Decreases related to prior year tax positions		(1,720)
Increases related to current year tax positions		—
Decreases related to current year tax positions		—
Effect of exchange rate changes		85
Balance as of September 30, 2017	$	1,452

The unrecognized tax benefits as of September 30, 2017 of $1,452, if recognized, would impact the effective tax rate.

During the three months ended September 30, 2017 and 2016, the Company has recognized interest of nil and $50, respectively, which are included in the income tax expense in the unaudited consolidated statements of income. As of September 30, 2017 and December 31, 2016, the Company has accrued interest and penalties of $240 and $1,553, relating to unrecognized tax benefits.

19. 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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Cost of revenue	$ 1,109	$ 795	$ 3,448	$ 2,848
General and administrative expenses	2,601	1,905	7,541	6,241
Selling and marketing expenses	1,998	1,784	5,782	5,654
Total	$ 5,708	$ 4,484	$ 16,771	$ 14,743

As of September 30, 2017, the Company had 1,492,097 shares available for grant under the 2015 Amendment and Restatement of the 2006 Omnibus Award Plan.

(In thousands, except share and per share amounts)

Stock Options

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

	Number of Options	Weighted Avg Exercise Price	Aggregate Intrinsic Value	Weighted Avg Remaining Contractual Life (Years)
Outstanding at December 31, 2016	811,902	$ 16.31	$ 27,718	2.96
Granted	—	—		
Exercised	(349,880)	12.22		
Forfeited	—	—		
Outstanding at September 30, 2017	462,022	$ 19.40	$ 17,980	2.97
Vested and exercisable at September 30, 2017	462,022	$ 19.40	$ 17,980	2.97

The unrecognized compensation cost for outstanding options as of September 30, 2017 is nil. The Company did not grant any options during the three and nine months ended September 30, 2017 and 2016. There were no options that vested during the three months ended September 30, 2017 and 2016. The total grant date fair value of options vested during the nine months ended September 30, 2017 and 2016 was nil and $706, respectively.

Restricted Stock and Restricted Stock Units

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

	Restricted Stock		Restricted Stock Units	
	Number	Weighted Avg Grant Date Fair Value	Number	Weighted Avg Grant Date Fair Value
Outstanding at December 31, 2016*	246,940	$ 42.42	1,256,288	$ 37.38
Granted	—	—	391,927	48.02
Vested	(36,767)	38.74	(449,977)	34.69
Forfeited	(4,505)	35.11	(96,140)	41.03
Outstanding at September 30, 2017*	205,668	$ 43.24	1,102,098	$ 41.94

* *As of September 30, 2017 and December 31, 2016 restricted stock units vested for which the underlying common stock is yet to be issued are 146,112 and 135,054, respectively.*

As of September 30, 2017, unrecognized compensation cost of $39,553 is expected to be expensed over a weighted average period of 2.66 years.

(In thousands, except share and per share amounts)

Performance Based Stock Awards

Performance restricted stock unit (the "PRSUs") activity under the Company's stock plans is shown below:

	Revenue Based PRSUs		Market Condition Based PRSUs	
	Number	Weighted Avg Grant Date Fair Value	Number	Weighted Avg Grant Date Fair Value
Outstanding at December 31, 2016	115,174	$ 41.70	215,171	$ 47.42
Granted	62,113	47.73	62,100	54.10
Vested	—	—	—	—
Forfeited	(8,595)	43.96	(8,595)	59.40
Outstanding at September 30, 2017	168,692	$ 43.81	268,676	$ 48.58

As of September 30, 2017, unrecognized compensation cost of $7,095 is expected to be expensed over a weighted average period of 1.83 years.

20. Related Party Disclosures

The Company provides consulting services to PharmaCord, LLC. One of the Company's directors, Nitin Sahney, is the member-manager and chief executive officer of PharmaCord, LLC. The Company recognized revenue of approximately $701 and $1,506 in the three months and nine months ended September 30, 2017, respectively, for services provided.

At September 30, 2017 and December 31, 2016, the Company had an account receivable of $379 and nil, respectively, related to these services.

21. Commitments and Contingencies

Fixed Asset Commitments

At September 30, 2017, the Company has committed to spend approximately $7,407 under agreements to purchase fixed assets. This amount is net of capital advances paid in respect of these purchases.

Other Commitments

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

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

Contingencies

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

The aggregate disputed amount demanded by Indian tax authorities from the Company primarily related to its transfer pricing issues for years ranging from tax years 2003 to 2014 and its permanent establishment issues ranging from tax years 2003 to 2007 as of September 30, 2017 and December 31, 2016 is $16,075 and $17,963, respectively, of which the Company has made payments or provided bank guarantee to the extent $8,418 and $8,640, respectively. Amounts paid as deposits in respect of such assessments aggregating to $6,389 and $6,690 as of September 30, 2017 and December 31, 2016, respectively, are included in “Other assets” and amounts deposited for bank guarantees aggregating to $2,029 and $1,950 as of September 30, 2017 and December 31, 2016, respectively, are included in “Restricted cash” in the non-current assets section of the Company’s consolidated balance sheets as of September 30, 2017 and December 31, 2016.

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

22. Subsequent Event

On October 24, 2017, a wholly owned subsidiary of the Company entered into a definitive purchase agreement to acquire substantially all the assets of Health Integrated, Inc. Based in Tampa, Florida, Health Integrated is a care management company that provides end-to-end technology and analytics-enabled care management services including case management, utilization management, disease management, special needs programs, and multichronic care management on behalf of health plans. Health Integrated currently serves over five million lives in the Medicaid, Medicare, and dual eligible populations. It is known for its strong capabilities in improving member health status through behavioral change. The acquisition is expected to close in the first quarter of 2018, subject to the fulfillment of certain closing conditions, including regulatory and other consents.

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, 2016. Some of the statements in the following discussion are forward looking statements. Dollar amounts within Item 2 are presented as actual, approximated, dollar amounts.

Cautionary Note Regarding Forward-Looking Statements

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

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

These and other factors are more fully discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. These and other risks could cause actual results to differ materially from those implied by forward-looking statements in this Quarterly Report on Form 10-Q.

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

Executive Overview

We operate in the business process management ("BPM") industry and we provide operations management and analytics services that help the business enhance growth and profitability. Using our proprietary platforms, methodologies and tools we look deeper to help our clients improve global operations, enhance data-driven insights, increase customer satisfaction, and manage risk and compliance. Our eight operating segments are strategic business units that align our products and services with how we manage our business, approach our key markets and interact with our clients. Six of those operating segments provide BPM or "operations management" services, which we organize into industry-focused operating segments (Insurance, Healthcare, Travel, Transportation and Logistics, Banking and Financial Services, and Utilities) and one "capability" operating segment (Finance and Accounting) that provides services to clients in our industry-focused segments as well as clients across other industries. In each of these six operating segments we provide operations management services, which typically involve transfer to the Company of select business operations of a client, after which we administer and manage those operations for our client on an ongoing basis. Our remaining two operating segments are Consulting, which provides industry-specific transformational services related to operations management services, and our Analytics operating segment, which provides services that focus on driving improved business outcomes for clients by generating data-driven insights across all parts of their business.

In prior periods we presented two reportable segments: Operations Management (which included our Insurance, Healthcare, Travel, Transportation and Logistics, Finance and Accounting, Banking and Financial services, Utilities and Consulting operating segments) and Analytics. Effective for the quarter and year ended December 31, 2016, we present information for the following reportable segments:

- Insurance
- Healthcare
- Travel, Transportation and Logistics ("TT&L")
- Finance and Accounting ("F&A"), and
- Analytics

The remaining operating segments, which includes our Banking and Financial Services, Utilities and Consulting operating segments have been included in a category called "All Other". This change in segment presentation does not affect our consolidated statements of income, balance sheets or statements of cash flows. For further descriptions of our operating segments, see Note 3 to the unaudited consolidated financial statements contained herein.

Our global delivery network, which include highly trained industry and process specialists across the United States, Latin America, South Africa, Europe and Asia (primarily India and the Philippines), is a key asset. We have operations centers in India, the U.S., the Philippines, Bulgaria, Colombia, South Africa, Romania and the Czech Republic.

Revenues

For the three months ended September 30, 2017, we had revenues of $192.3 million compared to revenues of $171.2 million for the three months ended September 30, 2016, an increase of $21.1 million, or 12.4%. For the nine months ended September 30, 2017, we had revenues of $564.4 million compared to revenues of $508.7 million for the nine months ended September 30, 2016, an increase of $55.7 million, or 11.0%.

We serve clients mainly in the U.S. and the U.K., with these two regions generating approximately 82.4% and 13.9%, respectively, of our total revenues for the three months ended September 30, 2017 and approximately 80.1% and 16.4%, respectively, of our revenues for the three months ended September 30, 2016. For the nine months ended September 30, 2017, these two regions generated 82.0% and 14.5%, respectively, of our total revenues and 80.1% and 16.6%, respectively, of our total revenues for the nine months ended September 30, 2016.

For the three months ended September 30, 2017 and 2016, our total revenues from our top ten clients accounted for 38.3% and 41.0% of our total revenues, respectively. For the nine months ended September 30, 2017 and 2016, our total revenues from our top ten clients accounted for 38.7% and 40.6% of our total revenues, respectively. None of our clients individually accounted for more than 10% of our total revenues during the three and nine months ended September 30, 2017 and 2016. Although we intend to continue increasing and diversifying our customer base, we expect in the near future that a significant portion of our revenue will continue to be contributed by a limited number of large clients.

Our Business

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

Operations Management Services: We provide our clients with a range of operations management services principally in the Insurance, Healthcare, Travel, Transportation and Logistics, Banking and Financial Services and Utilities sectors, among others, as well as cross-industry operations management services, such as Finance and Accounting Services. We also provide services related to operations management, through our Consulting services that provide advice regarding transformational initiatives.

Our operations management solutions typically involve the transfer to the Company of select business operations of a client such as claims processing, clinical operations, or financial transaction processing, after which we administer and manage the operations for our client on an ongoing basis. As part of this transfer, we hire and train employees to work at our operations centers on the relevant business operations, implement a process migration to these operations centers and then provide services either to the client or directly to the client's customers. Each client contract has different terms based on the scope, deliverables and complexity of the engagement.

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

Our existing agreements with original terms of three or more years provide us with a relatively predictable revenue base for a substantial portion of our operations management business, however, we have a long selling cycle for our services and the budget and approval processes of prospective clients make it difficult to predict the timing of entering into definitive agreements with new clients. Similarly, new license sales and implementation projects for our technology service platforms and other software-based services have a long selling cycle, however ongoing annual maintenance and support contracts for existing arrangements provide us with a relatively predictable revenue base.

Analytics: Our Analytics services focus on driving improved business outcomes for our customers by generating data-driven insights across all parts of our customers' business. Our teams deliver predictive and prescriptive analytics in the areas of customer acquisition and lifecycle management, risk underwriting and pricing, operational effectiveness, credit and operational risk monitoring and governance, regulatory reporting, and data management. We actively cross-sell and, where appropriate, integrate our Analytics services with other operations management services as part of a comprehensive offering set for our clients.

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

Critical Accounting Policies and Estimates

For a description of our critical accounting policies and estimates, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" and Note 2 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Results of Operations

The following table summarizes our results of operations for the three and nine months ended September 30, 2017 and 2016:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(dollars in millions)		(dollars in millions)	
Revenues, net	$ 192.3	$ 171.2	$ 564.4	$ 508.7
Cost of revenues (exclusive of depreciation and amortization)	124.9	111.8	370.5	332.2
Gross profit	67.4	59.4	193.9	176.5
Operating expenses:				
General and administrative expenses	26.9	21.9	75.8	63.6
Selling and marketing expenses	12.2	11.6	38.7	37.9
Depreciation and amortization	9.7	8.6	28.8	25.0
Total operating expenses	48.8	42.1	143.3	126.5
Income from operations	18.6	17.3	50.6	50.0
Foreign exchange gain, net	2.8	1.7	7.3	3.6
Interest expense	(0.4)	(0.3)	(1.4)	(1.0)
Other income, net	2.9	2.9	8.9	12.2
Income before income tax expense	23.9	21.6	65.4	64.8
Income tax expense	2.8	5.6	7.2	18.5
Net income	$ 21.1	$ 16.0	$ 58.2	$ 46.3

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Revenues.

The following table summarizes our revenues by reportable segment for the three months ended September 30, 2017 and 2016:

	Three months ended September 30,			
	2017	2016	Change	Percentage change
	(dollars in millions)			
Insurance	$ 59.6	$ 52.8	$ 6.8	12.9 %
Healthcare	18.9	16.0	2.9	18.2 %
Travel, Transportation and Logistics	18.5	17.5	1.0	5.6 %
Finance and Accounting	21.6	19.9	1.7	9.0 %
All Other	20.0	23.4	(3.4)	(14.7)%
Analytics	53.7	41.6	12.1	29.1 %
Total revenues, net	$ 192.3	$ 171.2	$ 21.1	12.4 %

Revenues for the three months ended September 30, 2017 were $192.3 million, up $21.1 million or 12.4% compared to the three months ended September 30, 2016.

Revenue growth in Insurance of $6.8 million was driven by expansion of business from our new and existing clients of $6.4 million. The remaining increase of $0.4 million is attributable to a net impact of appreciation of the South African Rand and Indian rupee during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Insurance revenues were 31.0% and 30.9% of our total revenues in the three months ended September 30, 2017 and September 30, 2016, respectively.

Revenue growth in Healthcare of $2.9 million was driven by expansion of business from our new and existing clients. Healthcare revenues were 9.8% and 9.3% of our total revenues in the three months ended September 30, 2017 and September 30, 2016, respectively.

Revenue growth in Travel, Transportation and Logistics ("TT&L") of $1.0 million was primarily driven by net volume increase from our new and existing clients of $1.2 million, partially offset by $0.2 million impact due to depreciation of the Philippine Peso against the U.S. dollar during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. TT&L revenues were 9.6% and 10.2% of our total revenues in the three months ended September 30, 2017 and September 30, 2016, respectively.

Revenue growth in Finance and Accounting ("F&A") of $1.7 million was driven by expansion of business from our new and existing clients. F&A revenues were 11.3% and 11.6% of our total revenues in the three months ended September 30, 2017 and September 30, 2016, respectively.

Revenue decline in All Other of $3.4 million was driven primarily by lower revenue in our Consulting and Utilities operating segments, aggregating to $3.7 million. This was partially offset by a net increase of $0.3 million due to the appreciation of the Indian rupee against the U.S. dollar during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. All Other revenues were 10.4% and 13.7% of our total revenues in the three months ended September 30, 2017 and September 30, 2016, respectively.

Revenue growth in Analytics of $12.1 million was driven by our recurring and project based engagements from our new and existing clients of $11.9 million, including $6.5 million from our IQR Consulting Inc. ("IQR") and Datasource Consulting, LLC ("Datasource") acquisitions in 2016. The increase of $0.2 million is attributable to the appreciation of Indian rupee during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Analytics revenues were 27.9% and 24.3% of our total revenues in the three months ended September 30, 2017 and September 30, 2016, respectively.

Cost of Revenues and Gross Margin**:** The following table sets forth cost of revenues and gross margin of our reportable segments.

	Cost of Revenues				Gross Margin		
	Three months ended September 30,				Three months ended September 30,		
	2017	2016	Change	Percentage change	2017	2016	Change
	(dollars in millions)						
Insurance	$ 39.7	$ 37.8	$ 1.9	5.0 %	33.4%	28.4%	5.0 %
Healthcare	12.0	10.9	1.1	9.9 %	36.6%	31.8%	4.8 %
TT&L	10.1	10.6	(0.5)	(4.7)%	45.2%	39.3%	5.9 %
F & A	13.3	12.0	1.3	10.8 %	38.5%	39.5%	(1.0)%
All Other	13.6	14.7	(1.1)	(7.0)%	31.8%	37.4%	(5.6)%
Analytics	36.2	25.8	10.4	40.2 %	32.7%	38.1%	(5.4)%
Total	$ 124.9	$ 111.8	$ 13.1	11.7 %	35.1%	34.7%	0.4 %

For the three months ended September 30, 2017, cost of revenues was $124.9 million compared to $111.8 million for the three months ended September 30, 2016, an increase of $13.1 million, or 11.7%. Our gross margin for the three months ended September 30, 2017 was 35.1% compared to 34.7% for three months ended September 30, 2016, an increase of 40 basis points (“bps”).

The increase in cost of revenues in Insurance of $1.9 million was primarily due to an increase in employee-related costs of $1.6 million on account of higher headcount and wage inflation, technology and infrastructure costs of $0.6 million. This was partially offset by a decrease in other operating costs of $0.4 million. There was a net increase of $0.2 million due to the appreciation of the Indian rupee and depreciation of the Philippine peso against the U.S. dollar during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Gross margin increased by 500 bps during the three months ended September 30, 2017 compared to the three months ended September 30, 2016, primarily due to higher revenues and margin expansion in existing clients.

The increase in cost of revenues in Healthcare of $1.1 million was primarily due to an increase in employee-related costs of $1.2 million on account of higher headcount and wage inflation, technology and infrastructure costs of $0.3 million. This was partially offset by $0.4 million due to the depreciation of the Philippine peso against the U.S. dollar during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Gross margin increased by 480 bps during the three months ended September 30, 2017 compared to the three months ended September 30, 2016, primarily due to higher revenues and operational efficiencies.

The decrease in cost of revenues in TT&L of $0.5 million was primarily due to a decrease in employee-related costs of $0.2 million on account of lower headcount (partially offset by wage inflation), decrease in infrastructure costs of $0.1 million and decrease in other operating costs of $0.1 million. There was a decrease of $0.1 million due to the depreciation of the Philippine peso against the U.S. dollar during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Gross margin increased by 590 bps during the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 due to margin expansion in existing clients and lower operating costs.

The increase in cost of revenues in F&A of $1.3 million was primarily due to an increase in employee-related costs of $0.6 million on account of higher headcount and wage inflation, infrastructure costs of $0.1 million and travel costs of $0.4 million. There was an increase of $0.3 million due to the appreciation of the Indian rupee against the US dollar during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Gross margin decreased by 100 bps during the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to migration costs associated with our new client wins and higher reimbursable travel related costs with lower gross margin.

The decline in cost of revenues in All Other of $1.1 million was primarily due to a decrease in employee-related costs of $0.6 million on account of lower headcount, partially offset by wage inflation. There was also a decrease in travel related costs of $0.3 million, infrastructure costs and other operating costs aggregating to $0.2 million during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Gross margin decreased by 560 bps during the three months ended September 30, 2017 compared to the three months ended September 30, 2016, primarily due to lower revenues in our Consulting and Utilities operating segments.

The increase in cost of revenues in Analytics of $10.4 million was primarily due to an increase in employee-related costs of $9.0 million (including $5.4 million related to the IQR and Datasource acquisitions in 2016) on account of higher headcount and wage inflation, and an increase in technology costs of $0.4 million, infrastructure costs of $0.5 million and travel costs of $0.4 million. This was partially offset by a reduction in our other operating expenses of $0.4 million. There was an increase of $0.3 million due to the appreciation of the Indian rupee against the U.S. dollar during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Gross margin decreased by 540 bps during the three months ended September 30, 2017 compared to the three months ended September 30, 2016, primarily due to higher operating costs and lower gross margin from our 2016 acquisitions.

Selling, General and Administrative ("SG&A") Expenses.

	Three months ended September 30,						
	2017		2016		Change		Percentage change
	(dollars in millions)						
General and administrative expenses	$	26.9	$	21.9	$	5.0	23.0%
Selling and marketing expenses		12.2		11.6		0.6	5.2%
Selling, general and administrative expenses	$	39.1	$	33.5	$	5.6	16.8%
As a percentage of revenues		20.3%		19.6%			

The increase in SG&A expenses was primarily due to an increase in employee-related costs of $2.2 million (including $1.6 million of incremental employee-related costs related to our 2016 acquisitions) as a result of annual wage increments and an increase in our average headcount to support the increased business volumes. There was an increase of $1.8 million due to recognition of reserve for doubtful account receivables, $0.5 million of infrastructure costs related to our new operating centers and $0.5 million of other operating expenses. There was a net increase of $0.2 million due to the appreciation of the Indian rupee and depreciation of the Philippine peso against the U.S. dollar during the three months ended September 30, 2017 compared to the three months ended September 30, 2016.

Depreciation and Amortization.

	Three months ended September 30,						
	2017		2016		Change		Percentage change
	(dollars in millions)						
Depreciation expense	$	6.2	$	5.7	$	0.5	8.2%
Intangible amortization expense		3.5		2.9		0.6	22.4%
Depreciation and amortization expense	$	9.7	$	8.6	$	1.1	12.9%
As a percentage of revenues		5.0%		5.0%			

Depreciation and amortization expense increased by $1.1 million, or 12.9%, from $8.6 million for the three months ended September 30, 2016 to $9.7 million for the three months ended September 30, 2017. The increase in intangibles amortization expense of $0.6 million was primarily due to amortization of intangibles associated with IQR and Datasource acquisitions in 2016. There was an increase in our depreciation expense of $0.5 million, due to depreciation related to our new operating centers in India and the Philippines to support our business growth and impact of our 2016 acquisitions.

Income from Operations. Income from operations increased $1.3 million, or 7.5%, from $17.3 million for the three months ended September 30, 2016 to $18.6 million for the three months ended September 30, 2017. As a percentage of revenues, income from operations decreased from 10.1% for the three months ended September 30, 2016 to 9.7% for the three months ended September 30, 2017.

Foreign Exchange Gain/(Loss). Net foreign exchange gains and losses are primarily attributable to movement of the U.S. dollar against the Indian rupee, the U.K. Pound sterling and the Philippine peso during the three months ended September 30, 2017. The average exchange rate of the U.S. dollar against the Indian rupee decreased from 66.73 during the three months ended September 30, 2016 to 64.45 during the three months ended September 30, 2017. The average exchange rate of the U.K. Pound sterling against the U.S. dollar remained flat at 1.31 during the three months ended September 30, 2016 and September 30, 2017. The average exchange rate of the U.S. dollar against the Philippine peso increased from 47.40 during the three months ended September 30, 2016 to 50.82 during the three months ended September 30, 2017.

We recorded a net foreign exchange gain of $2.8 million for the three months ended September 30, 2017 compared to $1.7 million for the three months ended September 30, 2016.

Interest expense. Interest expense increased $0.1 million, from $0.3 million for the three months ended September 30, 2016 to $0.4 million for the three months ended September 30, 2017.

Other Income, net. Other income, net was flat at $2.9 million during the three months ended September 30, 2017.

Income Tax Expense. The effective tax rate decreased from 26.0% during the three months ended September 30, 2016 to 11.8% as a result of (i) excess tax benefit related to stock awards of $3.5 million pursuant to ASU No. 2016-09 during the three months ended September 30, 2017, and (ii) higher earnings from foreign subsidiaries and lower domestic profit in the U.S., partially offset by higher tax expense on account of the expiration of a tax holiday for some of the operating centers in India

Net Income. Net income increased from $16.0 million for the three months ended September 30, 2016 to $21.1 million for the three months ended September 30, 2017, primarily due to lower income tax expense of $2.8 million, higher income from operations of $1.3 million, higher foreign exchange gain of $1.1 million, partially offset by higher interest expense of $0.1 million. As a percentage of revenues, net income increased from 9.4% for the three months ended September 30, 2016 to 11.0% for the three months ended September 30, 2017.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Revenues.

The following table summarizes our revenues by reportable segment for the nine months ended September 30, 2017 and 2016:

	Nine months ended September 30,			
	2017	2016	Change	Percentage change
	(dollars in millions)			
Insurance	$ 173.8	$ 151.7	$ 22.1	14.6 %
Healthcare	56.7	49.8	6.9	13.9 %
Travel, Transportation and Logistics	53.4	52.6	0.8	1.4 %
Finance and Accounting	63.7	59.0	4.7	8.0 %
All Other	62.5	75.4	(12.9)	(17.1)%
Analytics	154.3	120.2	34.1	28.4 %
Total revenues, net	$ 564.4	$ 508.7	$ 55.7	11.0 %

Revenues for the nine months ended September 30, 2017 were $564.4 million, up $55.7 million or 11.0% compared to the nine months ended September 30, 2016.

Revenue growth in Insurance of $22.1 million was driven by expansion of business from our new and existing clients of $21.1 million, including incremental $2.6 million related to the July 2016 acquisition of Liss Systems Limited ("Liss"). The remaining increase of $1.0 million is attributable to a net impact of appreciation of the South African Rand and Indian rupee and depreciation of the U.K. Pound sterling against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Insurance revenues were 30.8% and 29.8% of our total revenues in the nine months ended September 30, 2017 and September 30, 2016, respectively.

Revenue growth in Healthcare of $6.9 million was driven by expansion of business from our existing and new clients. Healthcare revenues were 10.0% and 9.8% of our total revenues in the nine months ended September 30, 2017 and September 30, 2016, respectively.

Revenue growth in TT&L of $0.8 million was primarily driven by net volume increases from our existing clients of $1.6 million, partially offset by an impact of $0.8 million due to the depreciation of the Philippine Peso against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. TT&L revenues were 9.5% and 10.4% of our total revenues in the nine months ended September 30, 2017 and September 30, 2016, respectively.

Revenue growth in F&A of $4.7 million was driven by expansion of business from our new and existing clients of $4.4 million. The remaining increase of $0.3 million is attributable to the appreciation of Indian rupee against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. F&A revenues were 11.3% and 11.6% of our total revenues in the nine months ended September 30, 2017 and September 30, 2016, respectively.

Revenue decline in All Other of $12.9 million was driven primarily by lower revenue in our Consulting and Utilities operating segments, partially offset by higher revenue in our Banking and Financial Services operating segment, aggregating to $13.1 million. This was partially offset by $0.2 million impact due to the depreciation of the U.K. Pound sterling against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 in our Consulting operating segment. All Other revenues were 11.1% and 14.8% of our total revenues in the nine months ended September 30, 2017 and September 30, 2016, respectively.

Revenue growth in Analytics of $34.1 million was driven by our recurring and project based engagements from our new and existing clients of $34.4 million, including incremental $18.6 million from IQR and Datasource acquisitions in 2016. The increase was partially offset by a decrease of $0.3 million due to the depreciation of the U.K. Pound sterling against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Analytics revenues were 27.3% and 23.6% of our total revenues in the nine months ended September 30, 2017 and September 30, 2016, respectively.

***Cost of Revenues and Gross Margin*:** The following table sets forth cost of revenues and gross margin of our reportable segments.

	Cost of Revenues				Gross Margin		
	Nine months ended September 30,				Nine months ended September 30,		
	2017	2016	Change	Percentage change	2017	2016	Change
	(dollars in millions)						
Insurance	$ 119.0	$ 108.5	$ 10.5	9.7 %	31.5%	28.5%	3.0 %
Healthcare	36.4	32.5	3.9	12.2 %	35.8%	34.8%	1.0 %
TT&L	30.8	31.9	(1.1)	(3.4)%	42.2%	39.4%	2.8 %
F & A	39.2	35.4	3.8	10.7 %	38.5%	40.0%	(1.5)%
All Other	42.8	47.8	(5.0)	(10.6)%	31.6%	36.6%	(5.0)%
Analytics	102.3	76.1	26.2	34.4 %	33.7%	36.7%	(3.0)%
Total	$ 370.5	$ 332.2	$ 38.3	11.5 %	34.4%	34.7%	(0.3)%

For the nine months ended September 30, 2017, cost of revenues was $370.5 million compared to $332.2 million for the nine months ended September 30, 2016, an increase of $38.3 million, or 11.5%. Our gross margin for the nine months ended September 30, 2017 was 34.4% compared to 34.7% for the nine months ended September 30, 2016, a decrease of 30 basis points (bps).

The increase in cost of revenues in Insurance of $10.5 million was primarily due to an increase in employee-related costs of $8.2 million (including $1.3 million from our Liss acquisition) on account of higher headcount and wage inflation, and technology and infrastructure costs of $2.8 million. This was partially offset by a decrease in travel related costs of $0.6 million and other operating costs of $0.7 million. There was a net increase of $0.7 million due to the appreciation of the Indian rupee and depreciation of the Philippine peso against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Gross margin increased by 300 bps during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, primarily due to higher revenues and lower operating costs.

The increase in cost of revenues in Healthcare of $3.9 million was primarily due to an increase in employee-related costs of $3.9 million on account of higher headcount and wage inflation, technology costs of $0.6 million and infrastructure costs of $0.4 million. This was partially offset by a decrease of $1.0 million due to the depreciation of the Philippine peso against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Gross margin increased by 100 bps during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, primarily due to higher revenues and operational efficiencies.

The decrease in cost of revenues in TT&L of $1.1 million was primarily due to decrease in infrastructure cost of $0.3 million, other operating costs of $0.2 million and employee-related costs of $0.1 million on account of lower headcount (partially offset by wage inflation).The cost of revenue also decreased due to depreciation of the Philippine peso against the U.S. dollar of $0.3 million during the nine months ended September 30, 2017 compared to the nine months ended September

30, 2016. Gross margin increased by 280 bps during the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 primarily due to higher revenues and lower operating costs.

The increase in cost of revenues in F&A of $3.8 million was primarily due to an increase in employee-related costs of $2.3 million on account of higher headcount and wage inflation and infrastructure costs of $0.7 million. There was an increase of $0.7 million due to the appreciation of the Indian rupee against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Gross margin decreased by 150 bps during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, primarily due to migration costs associated with our new client wins and higher reimbursable travel related costs with lower gross margin.

The decline in cost of revenues in All Other of $5.0 million was primarily due to a decrease in employee-related costs of $2.9 million on account of lower headcount, partially offset by wage inflation. There was also a decrease in travel related costs of $1.6 million and other operating expenses of $0.5 million. Gross margin decreased by 500 bps during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, primarily due to lower revenues in our Consulting and Utilities operating segments.

The increase in cost of revenues in Analytics of $26.2 million was primarily due to an increase in employee-related costs of $24.8 million (including incremental $15.1 million related to our IQR and Datasource acquisitions in 2016) on account of higher headcount and wage inflation, an increase in technology costs of $0.9 million, infrastructure costs of $0.9 million and travel costs of $0.3 million. This was partially offset by reduction in our other operating costs of $1.4 million. There was an increase of $0.6 million due to the appreciation of the Indian rupee against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Gross margin decreased by 300 bps during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, primarily due to higher employee costs and lower gross margin from our 2016 acquisitions.

Selling, General and Administrative ("SG&A") Expenses.

	Nine months ended September 30,			
	2017	2016	Change	Percentage change
	(dollars in millions)			
General and administrative expenses	$ 75.8	$ 63.6	$ 12.2	19.2%
Selling and marketing expenses	38.7	37.9	0.8	2.2%
Selling, general and administrative expenses	$ 114.5	$ 101.5	$ 13.0	12.8%
As a percentage of revenues	20.3%	20.0%		

The increase in SG&A expenses was primarily due to an increase in employee-related costs of $8.2 million (including $4.1 million of incremental employee-related costs related to our 2016 acquisitions) as a result of annual wage increments and an increase in our average headcount to support the increased business volumes. There was an increase of $2.7 million due to recognition of reserve for doubtful account receivables and infrastructure costs of $1.5 million related to our new operating centers. There was a net increase of $0.7 million due to the appreciation of the Indian rupee and depreciation of the Philippine peso against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016.

Depreciation and Amortization.

	Nine months ended September 30,			
	2017	2016	Change	Percentage change
	(dollars in millions)			
Depreciation expense	$ 18.3	$ 16.7	$ 1.6	9.3%
Intangible amortization expense	10.5	8.3	2.2	26.7%
Depreciation and amortization expense	$ 28.8	$ 25.0	$ 3.8	15.1%
As a percentage of revenues	5.1%	4.9%		

Depreciation and amortization expense increased by $3.8 million, or 15.1%, from $25.0 million for the nine months ended September 30, 2016 to $28.8 million for the nine months ended September 30, 2017. The increase in intangible amortization expense of $2.2 million was primarily due to amortization of intangibles associated with our 2016 acquisitions. Further, there was an increase in our depreciation expense of $1.6 million related to our new operating centers in India and the Philippines and to support our business growth and depreciation expense associated with our 2016 acquisitions.

Income from Operations. Income from operations increased by $0.6 million, or 1.3%, from $50.0 million for the nine months ended September 30, 2016 to $50.6 million for the nine months ended September 30, 2017. As a percentage of revenues, income from operations decreased from 9.8% for the nine months ended September 30, 2016 to 9.0% for the nine months ended September 30, 2017.

Foreign Exchange Gain/(Loss). Net foreign exchange gains and losses are primarily attributable to movement of the U.S. dollar against the Indian rupee, the U.K. Pound sterling and the Philippine peso during the nine months ended September 30, 2017. The average exchange rate of the U.S. dollar against the Indian rupee decreased from 67.10 during the nine months ended September 30, 2016 to 65.12 during the nine months ended September 30, 2017. The average exchange rate of the U.K. Pound sterling against the U.S. dollar decreased from 1.38 during the nine months ended September 30, 2016 to 1.28 during the nine months ended September 30, 2017. The average exchange rate of the U.S. dollar against the Philippine peso increased from 47.13 during the nine months ended September 30, 2016 to 50.31 during the nine months ended September 30, 2017.

We recorded a net foreign exchange gain of $7.3 million for the nine months ended September 30, 2017 compared to $3.6 million for the nine months ended September 30, 2016.

Interest expense. Interest expense increased by $0.4 million from $1.0 million for the nine months ended September 30, 2016 to $1.4 million for the nine months ended September 30, 2017, due to financing cost associated with purchase of software.

Other Income, net

	Nine months ended September 30, 2017	Nine months ended September 30, 2016	Change	Percentage change
	(dollars in millions)			
Interest and dividend income	$ 1.3	$ 1.2	$ 0.1	9.0 %
Gain on mutual fund investments	6.8	6.2	0.6	9.5 %
Change in fair value of earn-out consideration	—	4.1	(4.1)	(100.0)%
Other, net	0.8	0.7	0.1	5.3 %
Other income, net	$ 8.9	$ 12.2	$ (3.3)	(27.3)%

Increase in interest and dividend income of $0.1 million and increase in gain on mutual fund investments of $0.6 million was primarily due to higher cash balances in certain of our foreign subsidiaries and higher gain on sale of investment during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. We also recorded other income of $4.1 million during the nine months ended September 30, 2016 due to the reversal of earn-out liability related to our RPM acquisition in 2015.

Income Tax Expense. The effective tax rate decreased from 28.6% during the nine months ended September 30, 2016 to 11.0% as a result of (i) excess tax benefit related to stock awards of $7.2 million pursuant to ASU No. 2016-09 during the nine months ended September 30, 2017, (ii) conclusion of an uncertain tax position of $3.2 million (including interest of $1.4 million), and (iii) higher earnings from foreign subsidiaries and lower domestic profit in the U.S., partially offset by higher tax expense on account of the expiration of a tax holiday for some of the operating centers in India.

Net Income. Net income increased from $46.3 million for the nine months ended September 30, 2016 to $58.2 million for the nine months ended September 30, 2017, primarily due to lower income tax expense of $11.3 million, higher foreign exchange gain of $3.7 million, higher income from operations of $0.6 million partially offset by lower other income of $3.3 million and higher interest expense of $0.4 million.

As a percentage of revenues, net income increased from 9.1% for the nine months ended September 30, 2016 to 10.3% for the nine months ended September 30, 2017.

Liquidity and Capital Resources

	Nine months ended September 30,	
	2017	2016
	(dollars in millions)	
Opening cash and cash equivalents	$ 213.2	$ 205.3
Net cash provided by operating activities	72.2	56.0
Net cash used for investing activities	(171.2)	(126.2)
Net cash used for financing activities	(28.2)	(34.2)
Effect of exchange rate changes	1.7	(2.5)
Closing cash and cash equivalents	$ 87.7	$ 98.4

As of September 30, 2017 and December 31, 2016, we had $249.4 million and $226.6 million, respectively, in cash, cash equivalents and short-term investments (including $205.1 million and $170.1 million, respectively, held by our foreign subsidiaries). We do not intend to repatriate funds held by our foreign subsidiaries since our future growth partially depends upon continued infrastructure and technology investments, geographical expansions and acquisitions outside of the U.S. Therefore, we anticipate that we will indefinitely reinvest the earnings generated outside of the U.S. If we were to repatriate our overseas funds, we would accrue and pay applicable taxes.

Operating Activities: Cash flows from operating activities increased by $16.2 million from $56.0 million for the nine months ended September 30, 2016 to $72.2 million for the nine months ended September 30, 2017. The increase in cash flows from operations for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 was due to an increase in net income by $12.0 million, increase in non-cash adjustment of $3.9 million and decrease in working capital of $0.3 million from $25.2 million during the nine months ended September 30, 2016 to $24.9 million during the nine months ended September 30, 2017.

Investing Activities: Cash flows used for investing activities increased by $45.0 million from $126.2 million for the nine months ended September 30, 2016 to $171.2 million for the nine months ended September 30, 2017. The increase was primarily due to an increase in short-term investments of $47.2 million (net of redemption) and due to an increase in capital expenditures of $6.4 million during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. This was partially offset by amount paid for business acquisition of $9.4 million during the nine months ended September 30, 2016 compared to $0.7 million paid for settlement of working capital and purchase consideration payable related to 2016 acquisitions during the nine months ended September 30, 2017.

Financing Activities: Cash flows used for financing activities was $28.2 million during the nine months ended September 30, 2017 compared to $34.2 million during the nine months ended September 30, 2016. The decrease in cash flow used for financing activities between periods is primarily due to repayment of borrowings of $25.0 million under the Credit Agreement (as described below in “Financing Arrangements”) during the nine months ended September 30, 2016. This was partially offset by higher purchases of treasury stock of $17.2 million and lower proceeds from exercise of stock options of $2.0 million during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016.

We expect to use cash from operating activities to maintain and expand our business. As we have focused on expanding our cash flow from operating activities we continue to make capital investments, primarily related to new facilities and capital expenditures associated with leasehold improvements to build our facilities and the purchase of telecommunications equipment and computer hardware and software in connection with managing client operations. We incurred $26.8 million of capital expenditures in the nine months ended September 30, 2017. We expect to incur capital expenditures of between $30.0 million to $35.0 million in 2017, primarily to meet our growth requirements, including additions to our facilities as well as investments in technology applications and infrastructure, but the actual amount may vary based on economic conditions or other factors.

In connection with any tax assessment orders that have been issued or may be issued against us or our subsidiaries, we may be required to deposit additional amounts with respect to such assessment orders (refer to Note 21 to the unaudited consolidated financial statements contained herein for further details). We anticipate that we will continue to rely upon cash from operating activities to finance our smaller acquisitions, capital expenditures and working capital needs. If we have significant growth through acquisitions, we may need to obtain additional financing.

Financing Arrangements (Debt Facility)

Our Credit Agreement provides for revolving credit facility (the “Credit Facility”), including a letter of credit sub-facility, in the amount of $100.0 million. The Credit Facility has a maturity date of October 24, 2019 and is voluntarily pre-payable from time to time without premium or penalty. As of September 30, 2017, we had outstanding indebtedness of $45.0 million which is included under “long term borrowings” in the unaudited consolidated balance sheets.

Borrowings under the Credit Facility may be used for working capital and general corporate purposes of the Company and its subsidiaries and for acquisitions.

Depending on the type of borrowing, loans under the Credit Agreement bear interest at a rate equal to the specified prime rate (alternate base rate) or adjusted LIBO rate, plus, in each case, an applicable margin. The applicable margin is tied to the Company’s leverage ratio and ranges from 0.3% to 0.8% per annum with respect to loans pegged to the specified prime rate, and 1.3% to 1.8% per annum on loans pegged to the adjusted LIBO rate. The revolving credit commitments under the Credit Agreement are subject to a commitment fee. The commitment fee is also tied to the Company’s leverage ratio, and ranges from 0.2% to 0.3% per annum on the average daily amount by which the aggregate revolving commitments exceed the sum of outstanding revolving loans and letter of credit obligations. The Credit Facility carried an effective interest rate per annum of 2.9% and 2.7% during the three and nine months ended September 30, 2017, respectively.

Off-Balance Sheet Arrangements

As of September 30, 2017 and December 31, 2016, we had no off-balance sheet arrangements or obligations.

Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2017:

	Payment Due by Period				
	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
			(dollars in millions)		
Capital leases	$ 0.2	$ 0.3	$ 0.1	$ —	$ 0.6
Operating leases	10.5	13.3	4.3	0.9	29.0
Purchase obligations	7.2	0.2	—	—	7.4
Other obligations[(a)]	2.8	4.6	3.7	5.2	16.3
Borrowings					
Principal payments	—	45.0	—	—	45.0
Interest Payments[(b)]	1.3	1.3	—	—	2.6
Total contractual cash obligations[(c)]	$ 22.0	$ 64.7	$ 8.1	$ 6.1	$ 100.9

(a) Represents estimated payments under the Gratuity Plan.
(b) Interest on borrowings is calculated based on the effective interest rate on the outstanding borrowings as of September 30, 2017.
(c) Excludes $1.5 million related to uncertain tax positions, since the extent of the amount and timing of payment is currently not reliably estimable or determinable.

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

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

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, see Note 2—"Recent Accounting Pronouncements" to the unaudited consolidated financial statements contained herein.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

During the three months ended September 30, 2017, 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 fiscal year ended December 31, 2016.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), to allow timely decisions regarding required disclosure. In connection with the preparation of this Quarterly Report on Form 10-Q, our management carried out an evaluation, under the supervision and with the participation of the CEO and CFO, of the effectiveness and operation of our disclosure controls and procedures as of September 30, 2017. Based upon that evaluation, the CEO and CFO have concluded that, as of September 30, 2017, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

During the three months ended September 30, 2017, 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.

PART II. Other Information

ITEM 1. Legal Proceedings

In the course of our normal business activities, various lawsuits, claims and proceedings may be instituted or asserted against us. We believe that the disposition of matters currently instituted or asserted will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. Please see Note 21 to the unaudited consolidated financial statements contained herein for details regarding our tax proceedings.

ITEM 1A. Risk Factors

We have disclosed under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 a number of risks which may materially affect our business, financial condition or results of operations. You should carefully consider the “Risk Factors” set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and the other information set forth elsewhere in this Quarterly Report on Form 10-Q. You should be aware that these risk factors and other information may not describe every risk facing our Company. Additional risks and uncertainties not currently known to us may also materially adversely affect our business, financial condition and/or results of operations.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

None.

Use of Proceeds

None.

Purchases of Equity Securities by the Issuer

During the three months ended September 30, 2017, purchases of common stock were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs(1)
July 1, 2017 through July 31, 2017	—	—	—	19,684,088
August 1, 2017 through August 31, 2017	107,633	56.12	107,633	13,643,362
September 1, 2017 through September 30, 2017	52,400	56.55	52,400	10,680,041
Total	160,033	56.26	160,033	—

(1) On February 28, 2017, the Company's Board of Directors authorized an additional common stock repurchase program (the "2017 Repurchase Program"), under which shares may be purchased by the Company from time to time from the open market and through private transactions during each of the fiscal years 2017 through 2019 up to an aggregate additional amount of $100 million. The approval increases the 2017 authorization from $20 million to $40 million and authorizes stock repurchases of up to $40 million in each of 2018 and 2019.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

See Exhibit Index immediately following the signature page hereto, which Exhibit Index is incorporated herein by reference.

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 thereunto duly authorized.

Date: October 26, 2017	**EXLSERVICE HOLDINGS, INC.**	
	By:	/S/ VISHAL CHHIBBAR
		Vishal Chhibbar **Chief Financial Officer** **(Duly Authorized Signatory, Principal Financial and Accounting Officer)**

EXHIBIT INDEX

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

3.1	Amended and Restated Certificate of Incorporation of the Company, as in effect on the date hereof (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K (File No. 1-33089) filed on October 25, 2006).
3.2	Fourth Amended and Restated By-Laws of ExlService Holdings, Inc., as in effect on the date hereof (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (File No. 1-33089) filed on February 28, 2017).
10.1	Amended and Restated Employment and Non-Competition Agreement, dated September 19, 2017, by and between ExlService Holdings and Rohit Kapoor.
31.1	Certification of the Chief Executive Officer of ExlService Holdings, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of ExlService Holdings, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Scheme
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Extension Presentation Linkbase

AMENDED AND RESTATED EMPLOYMENT AND NON-COMPETITION AGREEMENT

AMENDED AND RESTATED EMPLOYMENT AND NON-COMPETITION AGREEMENT (this "Agreement") dated as of September 19, 2017 (the "Effective Date"), by and among **EXLSERVICE HOLDINGS, INC**., a Delaware corporation (together with its successors and assigns, "Holdings" or the "Company", and together with any subsidiaries of Holdings, the "Companies"), and Rohit Kapoor (the "Executive").

W I T N E S S E T H :

A. The Companies and Executive are currently parties to an Employment and Non-Competition Agreement dated as of April 29, 2015 (as amended and renewed through the date hereof, the "Current Employment Agreement").

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

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

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

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

Section 2. Employment Term. Subject to the provisions of Section 7 of this Agreement, the term of the Executive's employment under this Agreement shall commence on January 1, 2018 and end on December 31, 2020 (the "Initial Employment Term"); provided, however, that the Initial Employment Term shall be automatically extended for successive twelve (12) month periods unless, no later than 120 days prior to the expiration of the Initial Employment Term or any extension thereof, either party hereto shall provide written notice to the other party hereto of its or his desire not to extend the Employment Term hereof (the Initial Employment Term together with any extension shall be referred to hereinafter as the "Employment Term").

Section 3. Duties, Authority, Status and Responsibilities.

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

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

Section 4. Cash Compensation.

(a) Subject to paragraph (b) below, during the Employment Term, Executive shall receive an annual base salary (the "Base Salary") of SEVEN HUNDRED AND TWENTY THOUSAND AND 00/100 DOLLARS ($720,000) (the "Initial Base Salary"). Notwithstanding the provisions of Section 4(b), the Base Salary shall be reviewed no less frequently than annually during the Employment Term for increase, if any, in the sole discretion of the compensation committee of the Board ("Compensation Committee"). The Base Salary shall not be decreased at any time, or for any purpose, during the Employment Term, unless a Company-wide decrease in pay is implemented. In such case, any decrease in the Base Salary shall be no greater, as a percentage of the Base Salary, than the lowest percentage decrease in the base salary of any other member of the Company's senior management. The Base Salary shall be payable in accordance with the customary payroll practices of the Company for salaried employees.

(b) Executive shall have an opportunity to receive an annual cash bonus equal to 150% of Base Salary at target, with a maximum payment of no greater than 300% of Base Salary, with respect to each calendar year that ends during the Employment Term. The Compensation Committee shall determine the criteria and thresholds at which the target and maximum bonus shall be earned, as well as the level of attainment of the bonus criteria below which no bonus shall be earned, and the level of attainment at which a bonus of other than 150% or 300% of Base Salary shall be earned. To the extent there are extraordinary events such as acquisitions or dispositions, targets will be amended by the Board to reflect those events. Executive shall be paid Executive's annual cash bonus (if any) when bonuses are paid generally to senior officers of the Company following completion of the audited financial statements of the Company. Such bonus shall be paid no later than December 31 of the calendar year following the year in which such bonus is earned. With respect to any tax year in which the Company is subject to Section 162(m) of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder (the "Code"), the Committee may determine to take such actions as shall be necessary to preserve the tax deductibility of the bonus. In that event, this Section 4(b) shall be construed in a fashion that achieves that goal.

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

Section 6. Other Benefits.

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

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

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

(d) Travel. See Schedule 6 attached hereto.

(e) Transportation. See Schedule 6 attached hereto.

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

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

(h) Equity Awards. Executive shall be eligible to receive equity-based awards annually during the Employment Term. The Compensation Committee shall have the sole discretion to determine the amount and form of any such awards; provided that in making such determination it shall take into account (i) an aggregate "baseline" value equal to three million five hundred thousand dollars ($3,500,000) (ii) the Company's performance against budget since the grant date of the immediately preceding annual equity-based awards to Executive, (iii) any changes in market compensation of similarly situated executives since the grant date of the immediately preceding annual equity-based awards to Executive and (iv) "Say-on-Pay" vote considerations. The baseline value for such annual equity-based awards is subject to review for increase at the discretion of the Board. The definitive terms of each such equity-based award shall be consistent with the terms of this Agreement and no less favorable to Executive than the terms applicable to any corresponding award to any of Executive's direct reports, except that the vesting of any such award shall be no less favorable than on an annual ratable basis over four years from the date of grant and the award mix may be determined at the Compensation Committee's discretion. For the sake of clarity, performance modifications to the size of equity awards provided to any of Executive's direct reports shall not be considered a definitive term and, therefore, are not required to be applied to Executive's equity awards.

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

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

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

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

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

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

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

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

(B) fraud, embezzlement, gross negligence, self-dealing, dishonesty or other gross and willful misconduct which has caused serious and demonstrable injury to the Company;

(C) material violation by Executive of any material Company policy, which, if curable, is not remedied within fifteen (15) days after Executive's receipt of written notice from the Company specifying such violation in reasonable detail;

(D) willful and continuing failure to substantially perform Executive's duties (other than for reason of physical or mental incapacity) which failure to perform continues beyond fifteen (15) days after a written demand for substantial improvement in Executive's performance, identifying specifically and in detail the manner in which improvement is sought, is delivered to Executive by the Company; provided that a failure to achieve performance objectives shall not by itself constitute Cause and no act or failure to act by Executive shall be considered "willful" unless done or failed to be done by Executive in bad faith and without a reasonable belief that Executive's actions or omission was in the best interest of the Company;

(E) Executive's failure to reasonably cooperate in an investigation involving the Company by any governmental authority;

(F) Executive's material, knowing and intentional failure to comply with applicable laws with respect to the execution of the Company's business operations, including, without limitation, a knowing and intentional failure to comply with the Prevention of Corruption Act of India, 1988, or the United States Foreign Corrupt Practices Act of 1977, as amended; provided, that, if all of the following conditions exist, there will be a presumption that Executive has acted in accordance with such applicable laws: Executive is following, in good faith, the written advice of counsel, such counsel having been approved by the Board as outside counsel to the Company for regulatory and compliance matters, in the form of a legal memorandum or a written legal opinion, and Executive has, in good faith, provided to such counsel all accurate and truthful facts necessary for such counsel to render such legal memorandum or written legal opinion;

(G) Executive's failure to use his best reasonable efforts to follow the lawful directives of the Board which is not remedied within fifteen (15) days after Executive's receipt of written notice from the Company specifying such failure in reasonable detail;

(H) Executive's use of alcohol or drugs which materially interferes with the performance of his duties;

(I) Executive's failure to take the reasonable steps necessary to terminate his affiliation with any entity listed on Schedule 3(b) within six months after being requested by the Board, pursuant to Section 3(b) hereof, to take such action; or

(J) Executive's material breach of a material provision of this Agreement which is not remedied within fifteen (15) days after Executive's receipt of written notice from the Company specifying such breach in reasonable detail.

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

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

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

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

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

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

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

(e) Severance. If Executive's employment hereunder is terminated pursuant to Section 7(d) hereof or, only with respect to subsection (iii) of this Section 7(e) below, if

Executive gives notice of non-renewal of the Employment Term pursuant to Section 2, Executive will be entitled to:

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

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

(iii) with respect to outstanding equity-based awards that were part of the Company's annual equity grant cycle (and not any one-time or "special" grants), Executive shall be treated as if he were still employed by the Company for a period of two years following the Termination Date; <u>provided</u>, that if Executive's termination of employment is due to the expiration of the Employment Term due to either party's giving notice of non-extension of the Employment Term in accordance with Section 2, then with respect to such equity-based awards Executive shall be treated as if he were still employed by the Company for a period of 27 months following the Termination Date. For clarity, there shall be no acceleration of vesting; Executive shall be permitted to continue to vest in such awards on the same schedule that he would have vested in such awards had he continue to be employed during such two-year or 27-month period, as applicable (subject, in the case of any such awards that are subject to performance-based vesting in addition to service-based vesting, to the achievement of the applicable performance criteria), and if such awards do not vest by their terms by the end of such two-year or 27-month period, such awards shall be forfeited (and any such awards that could not possibly vest by the end of such two-year or 27-month period shall be forfeited immediately upon the Termination Date); and

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

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

(f) Termination Following a Change of Control. Notwithstanding anything in this Section 7 to the contrary, if Executive's employment hereunder is involuntarily terminated by the Company Without Cause, Executive terminates his employment hereunder with Good Reason in accordance with Section 7(d) or upon expiration of the Employment Term due to the Company's giving Executive a notice of its desire not to extend the Employment Term in accordance with Section 2, in each case within 12 months following a Change of Control, or if Executive's employment hereunder is involuntarily terminated by the Company prior to the date on which the Change in Control occurs, and if it is reasonably demonstrated by Executive that such termination of employment (x) was at the request of a third party who has taken steps reasonably calculated to effect a Change in Control or (y) otherwise arose in connection with or anticipation of a Change in Control, then Executive shall receive, in complete satisfaction of all payments (including severance) due under this Agreement, (i) a lump-sum payment equal to 24 months of Base Salary and (ii) payment of Executive's actual bonus earned for the year of termination as determined in accordance with the Company's annual incentive plan and customary practices as if Executive had remained employed hereunder for the full year in which Executive's employment terminates and thereafter until the bonus is actually determined and paid. The payment referred to in subclause (i) of this Section 7(f) shall be paid (without duplication of payments previously made in respect of Base Salary under Section 7(e)(i) above, and subject to Sections 7(m), 7(n) and 12(s)(ii) below) on the first payroll date following (but not more than one month after or, if earlier, March 15th of the year following the year in which occurs) the later of (x) the 60th day after the Termination Date and (y) the occurrence of the Change in Control. The payment referred to in subclause (ii) of this Section 7(f) shall be paid (without duplication of payments previously made in respect of such bonus under Section 7(e)(i) above, and subject to Sections 7(m), 7(n) and 12(s)(ii) below) on the first payroll date following (but not more than one month after or, if earlier, March 15th of the year following the year in which occurs) the latest of (x) 60th day after the Termination Date, (y) the date that the bonus is determined, and (z) the occurrence of the Change in Control. In addition, upon a termination of employment described in this Section 7(f), (A) Executive shall receive the benefits set forth in Sections 7(g), 7(h) and 7(i), and (B) all unvested equity-based awards granted to Executive on or after September 30, 2006 shall become fully vested and, in the case of stock options, fully vested and exercisable.

(g) Post-Termination Health Insurance. On any termination of Executive's employment hereunder by the Company Without Cause or by Executive other than (x) due to death or Disability, (y) upon expiration of the Employment Term due to Executive's giving the Company a notice of his desire not to extend the Employment Term in accordance with Section 2, or (z) by Executive without Good Reason, the Company shall pay on behalf of Executive and his eligible dependents the cost of continued coverage under the Company's group health plan for eighteen (18) months following the Termination Date in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), subject to such persons making timely elections to continue such coverage pursuant to COBRA and satisfaction of COBRA's eligibility requirements and other terms, conditions, restrictions and exclusions. Should COBRA coverage become unavailable due to the Company's failure to maintain a group health plan, the Company shall reimburse Executive and his dependents for the premium cost of comparable coverage obtained directly by Executive and his dependents for the balance of the 18 month period. The Company's obligation to pay such premium costs shall cease at the time Executive (or, in the case of Executive's death, his eligible dependents) become eligible for comparable health benefits from another employer. Without limiting the generality of the foregoing, following any termination of Executive's employment hereunder (other than by the Company for Cause), the Company shall continue to provide Executive with health coverage under the Company's group health plan, subject to the terms and conditions of such plan as in effect from time to time, provided that with respect to coverage for periods from and after the later of (1) the date that is eighteen (18) months following the Termination Date and (2) the date Executive ceases to be a member of the Board, Executive shall reimburse the Company for its costs of providing this coverage to Executive (and his dependents, as applicable), and provided further that if Executive ceases to be a member of the Board prior to the date that is eighteen (18) months following the Termination Date, Executive shall also reimburse the Company for such costs during the remaining portion of such 18-month period unless the Company is obligated to pay such costs pursuant to the first sentence of this Section 7(g). All such reimbursements pursuant to the preceding sentence shall be made within 30 days following delivery to Executive by the Company of an invoice therefor. In addition, if Executive elects COBRA coverage following the cessation of his employment for any reason whatsoever (whether paid by the Company or Executive), the Company will, at the request of Executive, facilitate and use commercially reasonable efforts to cause the conversion of his Company group health insurance coverage to an individual policy upon the expiration of Executive's eligibility for COBRA coverage; provided that the foregoing is not intended to be a guarantee by the Company that such conversion will be available to Executive at that time. Any payment made, or benefit provided, to Executive under Section 7(e)(ii) or under this Section 7(g) shall be paid as soon as practicable after it becomes due but in no event (subject to Sections 7(m), 7(n) and 12(s)(ii) below) later than the third calendar year following the calendar year in which Executive's "separation from service" (as defined in Section 409A) occurs.

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

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

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

(i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 50% (on a fully diluted basis) of either (A) the then outstanding shares of Series B common stock of Holdings ("Common Stock"), taking into account as outstanding for this purpose such Common Stock issuable upon the exercise of options or warrants, the conversion of convertible stock or debt, and the exercise of any similar right to acquire such Common Stock (the "Outstanding Company Common Stock") or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this Agreement, the following acquisitions shall not constitute a Change of Control: (I) any acquisition by the Company or (i) any entity that directly or indirectly is controlled by, controls or is under common control with the Company and (ii) to the extent provided by the Compensation Committee, any entity in which the Company has a significant equity interest ("Affiliate") on the Effective Date, (II) any acquisition by any employee benefit plan sponsored or maintained by the Company or any Affiliate, (III) any acquisition which complies with clauses (A), (B) and (C) of subsection (v) of this Section 7(h), or (IV), any acquisition by Executive or any group of persons that include Executive (or any entity controlled by Executive or any group of persons that includes Executive);

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

(iii) the dissolution or liquidation of the Company;

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

(v) the consummation of a reorganization, recapitalization, merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company that requires the approval of the Company's stockholders, whether for such transaction or the issuance of securities in the transaction (a "Business Combination"), unless immediately following such Business Combination: (A) more than 50% of the total voting power of (x) the entity resulting from such Business Combination (the "Surviving Company"), or (y) if applicable, the ultimate parent entity that directly or indirectly has beneficial ownership of sufficient voting securities eligible to elect a majority of the members of the board of directors (or the analogous governing body) of the Surviving Company (the "Parent Company"), is represented by the Outstanding Company Voting Securities that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which the Outstanding Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of the Outstanding Company Voting Securities among the holders thereof immediately prior to the Business Combination, (B) no Person (other than any employee benefit plan sponsored or maintained by the Surviving Company or the Parent Company), is or becomes the beneficial owner, directly or indirectly, of more than 50% of the total voting power of the outstanding voting securities eligible to elect members of the board of directors of the Parent Company (or the analogous governing body) (or, if there is no Parent Company, the Surviving Company) and (C) at least a majority of the members of the board of directors (or the analogous governing body) of the Parent Company (or, if there is no Parent Company, the Surviving Company) following the consummation of the Business Combination were Board members at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination.

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

(l) Termination Date. "Termination Date" shall mean (i) if Executive's employment hereunder is terminated by Executive's death, the date of Executive's death, (ii) if Executive's employment hereunder is terminated for Cause in accordance with Section 7(c), the date specified in the Notice of Termination, (iii) if Executive's employment hereunder terminates upon expiration of the Employment Term due to notice of non-extension pursuant to Section 2, the date that the Employment Term expires, (iv) if Executive's employment hereunder is terminated by Executive with Good Reason in accordance with Section 7(d), no later than ten (10) days after the date on which he delivers a Notice of Termination to the Company, and (v) if Executive's employment hereunder is terminated for any other reason, thirty (30) days after the date on which a Notice of Termination is delivered, but not earlier than the expiration of any applicable cure period provided for herein.

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

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

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

The address for any notice to Executive shall be:

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

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

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

to the Company:

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

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

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

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

Section 9. Covenant Not To Compete.

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

(b) Notwithstanding the foregoing, nothing in this Agreement shall prevent (A) the purchase or ownership by Executive of up to two percent (2%) in the aggregate of any class of securities of any entity if such securities (i) are listed on a national securities exchange or (ii) are registered under Section 12(g) of the Exchange Act; or (B) the direct or indirect ownership of securities of a private company; provided that Executive is only a passive investor in such company (having no role, duty or responsibility whatsoever in the management, operations or direction of such company) and owns no more than five percent (5%) in the aggregate of any securities of such company. If Executive's employment with the Company is terminated for any reason, and after such termination Executive wishes to take any action, including without limitation, taking a position with another company, which action could potentially be deemed a violation of this Section 9, Executive shall have the right, after providing the Board with all relevant information, to request a consent to such action from the Board which consent shall not be unreasonably withheld. The Board shall respond to Executive's request by granting or denying such consent within not more than 30 calendar days from the date the Company receives written notice of such request from Executive. If Executive disagrees with the Board's decision relating to the consent, then the disagreement shall be resolved by arbitration under the provisions of Section 12(g) below, as modified by the following two sentences. A single third-party arbitrator (the "Arbitrator") shall be appointed as promptly as practicable following the date Executive notifies the Company of his disagreement, and the third party Arbitrator shall make a determination with respect to whether Executive's action would constitute a legally valid and enforceable violation of Section 9 within not more than thirty (30) days of his appointment, and such determination shall be binding on all of the parties hereto. The cost of the Arbitrator shall be borne by the Company; provided, however, if the Company substantially prevails in the arbitration, then the cost of the Arbitrator shall be borne by Executive.

Section 10. Confidential Information.

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

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

(c) Pursuant to the Defend Trade Secrets Act of 2016, Executive acknowledges that Executive will not have criminal or civil liability under any federal or state trade secret law for the disclosure of a trade secret that (i) is made (A) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney and (B) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding if such filing is made under seal. In addition, if Executive files a lawsuit for alleged retaliation by the Company for reporting a suspected violation of law, Executive may disclose the trade secret to his attorney and may use the trade secret information in the court proceeding if Executive (i) files any document containing the trade secret under seal and (ii) does not disclose the trade secret, except pursuant to court order.

Section 11. Non-Disparagement; Non-Solicit.

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

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

Section 12. Miscellaneous.

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

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

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

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

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

(f) Consent to Jurisdiction and Service of Process. Any claim for injunctive relief pursuant to Section 12(k) below shall be instituted exclusively in any Federal court of the Southern District of New York or any state court located in New York County, State of New York, and each party agrees not to assert, by way of motion, as a defense or otherwise, in any such claim, any claim that it is not subject personally to the jurisdiction of such court, that the claim is brought in an inconvenient forum, that the venue of the claim is improper or that this Agreement or the subject matter hereof may not be enforced in or by such court. Each party further irrevocably submits to the jurisdiction of such court in any such claim. Any and all service of process and any other notice in any such claim shall be effective against any party if given personally or by registered or certified mail, return receipt requested, or by any other means of mail that requires a signed receipt, postage prepaid, mailed to such party as herein provided. Nothing herein contained shall be deemed to affect the right of any party to serve process in any manner permitted by law or to commence legal proceedings or otherwise proceed against any other party in any other jurisdiction.

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

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

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

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

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

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

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

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

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

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

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

(r) Indemnification. The Company shall indemnify and defend Executive to the fullest extent permitted by the law of the State of Company's incorporation and the By-Laws and Certificate of Incorporation of the Company with respect to any claims that may be brought against Executive arising out of any action taken or not taken in Executive's capacity as an officer or director of the Company; provided, that, the Company shall not indemnify and defend Executive with respect to any claims brought against Executive relating to fraudulent or willful misconduct of the Executive, or to other acts as to which indemnification is not allowable under applicable law. Expenses incurred by Executive in defending any claim shall be paid, or reimbursed, by the Company in advance of the final disposition of such claim promptly upon receipt by the Company of an undertaking by or on behalf of Executive to repay such amount if it shall be ultimately determined that Executive is not entitled to be indemnified by the Company. In addition, Executive shall be covered, in respect of Executive's activities as an officer or director of the Company, by the Company's Directors and Officer liability policy or other comparable policies obtained by the Company's successors, to the fullest extent permitted by such policies. Notwithstanding the foregoing, the Company's responsibilities under this Section 12(r) shall not apply to any claims raised against Executive after the sixth anniversary of his termination of employment. It is intended that any indemnification payment or advancement of expenses made hereunder shall be exempt from Section 409A. Notwithstanding the foregoing, if any indemnification payment or advancement of expenses made hereunder shall be determined to be "deferred compensation" within the meaning of Section 409A, then (i) the amount of the indemnification payment or advancement of expenses during one taxable year shall not affect the amount of the indemnification payments or advancement of expenses during any other taxable year, (ii) the indemnification payments or advancement of expenses must be made on or before the last day of Executive's taxable year following the year in which the expense was incurred, and (iii) the right to indemnification payments or advancement of expenses hereunder is not subject to liquidation or exchange for another benefit.

(s) Section 409A.

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

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

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

[Remainder of Page Left Blank Intentionally; Signature Page Follows]

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

EXLSERVICE HOLDINGS, INC.

By: /S/ GAREN K. STAGLIN
Name: Garen K. Staglin
Title: Chairman of the Board

ROHIT KAPOOR

By: /S/ ROHIT KAPOOR
Name: Rohit Kapoor

Schedule 3(b)

Outside Activities

1. **CA Technologies**

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

2. **Pratham**

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

3. **ASSOCHAM**

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

4. **Personal Investments**

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

Benefits for Rohit Kapoor

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

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

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

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

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

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

6. Once each year during the Term during which the Executive resides in US, the Company will provide, at its expense, round-trip, business-class air travel between the US and India for the Executive and his immediate family. In any given calendar year, Executive shall

either receive the air travel benefit provided in paragraph 1 of this Schedule 6 or the air travel benefit provided in this paragraph 6, but not both.

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

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

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

EXHIBIT A

RELEASE OF CLAIMS

As used in this Release of Claims (this "Release"), the term "claims" will include all claims, covenants, warranties, promises, undertakings, actions, suits, causes of action, proceedings, obligations, debts, accounts, attorneys' fees, judgments, losses, and liabilities, of whatsoever kind or nature, in law, in equity, or otherwise, except as otherwise provided below. Capitalized terms used but not defined in this Release will have the meanings given to them in the Amended and Restated Employment Agreement dated as of September 19, 2017, between ExlService Holdings, Inc. (the "Company) and Rohit Kapoor (my "Employment Agreement").

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

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

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

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

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

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

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

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

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

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

____
Rohit Kapoor

____
DATE

Exhibit 31.1

SECTION 302 CERTIFICATION

I, Rohit Kapoor, certify that:

1. I have reviewed this Quarterly Report of ExlService Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 26, 2017

/s/ Rohit Kapoor

Rohit Kapoor
Vice-Chairman and Chief Executive Officer

Exhibit 31.2

SECTION 302 CERTIFICATION

I, Vishal Chhibbar, certify that:

1. I have reviewed this Quarterly Report of ExlService Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 26, 2017

/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 ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Rohit Kapoor, Vice-Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(a) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Rohit Kapoor

Rohit Kapoor

Vice-Chairman and Chief Executive Officer

October 26, 2017

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 ended September 30, 2017 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

October 26, 2017