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

# FORM 10-Q

**(Mark One)**

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016**

**OR**

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

**FOR THE TRANSITION PERIOD FROM __________ TO __________**

**COMMISSION FILE NUMBER 001-33089**

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

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

**(212) 277-7100**

**(Registrant's telephone number, including area code)**

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ (Do not check if a smaller reporting company) | Smaller reporting company | ☐ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of July 25, 2016, there were 33,499,649 shares of the registrant's common stock outstanding, par value $0.001 per share.

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# PART 1. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| | (Unaudited) | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 93,113 | $ 205,323 |
| Short-term investments | 107,594 | 13,676 |
| Restricted cash | 1,537 | 1,872 |
| Accounts receivable, net | 111,383 | 92,650 |
| Prepaid expenses | 7,892 | 8,027 |
| Advance income tax, net | 5,568 | 2,432 |
| Other current assets | 16,685 | 15,219 |
| Total current assets | 343,772 | 339,199 |
| Fixed assets, net | 49,708 | 47,991 |
| Restricted cash | 3,277 | 3,319 |
| Deferred tax assets, net | 10,103 | 13,749 |
| Intangible assets, net | 47,278 | 52,733 |
| Goodwill | 171,035 | 171,535 |
| Other assets | 21,724 | 22,257 |
| Total assets | $ 646,897 | $ 650,783 |
| **Liabilities and Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 4,491 | $ 6,401 |
| Short-term borrowings | 10,000 | 10,000 |
| Deferred revenue | 16,157 | 11,518 |
| Accrued employee cost | 33,644 | 44,526 |
| Accrued expenses and other current liabilities | 35,948 | 34,250 |
| Current portion of capital lease obligations | 221 | 384 |
| Total current liabilities | 100,461 | 107,079 |
| Long term borrowings | 35,000 | 60,000 |
| Capital lease obligations, less current portion | 252 | 278 |
| Non-current liabilities | 14,185 | 17,655 |
| Total liabilities | 149,898 | 185,012 |
| Commitments and contingencies (See Note 16) | | |
| Preferred stock, $0.001 par value; 15,000,000 shares authorized, none issued | — | — |
| Stockholders’ equity: | | |
| Common stock, $0.001 par value; 100,000,000 shares authorized, 35,370,296 shares issued and 33,469,481 shares outstanding as of June 30, 2016 and 34,781,201 shares issued and 33,091,223 shares outstanding as of December 31, 2015 | 35 | 35 |
| Additional paid-in-capital | 268,506 | 254,052 |
| Retained earnings | 351,184 | 320,989 |
| Accumulated other comprehensive loss | (71,045) | (67,325) |
| Total including shares held in treasury | 548,680 | 507,751 |
| Less: 1,900,815 shares as of June 30, 2016 and 1,689,978 shares as of December 31, 2015, held in treasury, at cost | (51,863) | (42,159) |
| ExlService Holdings, Inc. stockholders’ equity | $ 496,817 | $ 465,592 |
| Non-controlling interest | 182 | 179 |
| Total equity | $ 496,999 | $ 465,771 |
| Total liabilities and equity | $ 646,897 | $ 650,783 |

*See accompanying notes to consolidated financial statements.*

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**EXLSERVICE HOLDINGS, INC.**

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Revenues, net | $ 170,478 | $ 155,621 | $ 337,514 | $ 299,131 |
| Cost of revenues (exclusive of depreciation and amortization) | 112,026 | 100,478 | 220,405 | 193,603 |
| Gross profit | 58,452 | 55,143 | 117,109 | 105,528 |
| Operating expenses: | | | | |
| General and administrative expenses | 21,148 | 19,990 | 41,766 | 38,611 |
| Selling and marketing expenses | 12,798 | 11,844 | 26,252 | 23,087 |
| Depreciation and amortization | 8,270 | 8,061 | 16,403 | 15,114 |
| Total operating expenses | 42,216 | 39,895 | 84,421 | 76,812 |
| Income from operations | 16,236 | 15,248 | 32,688 | 28,716 |
| Foreign exchange gain | 1,363 | 1,022 | 1,832 | 2,156 |
| Other income, net | 5,784 | 1,335 | 8,578 | 2,513 |
| Income before income taxes | 23,383 | 17,605 | 43,098 | 33,385 |
| Income tax expense | 7,008 | 5,531 | 12,903 | 11,744 |
| Net income | $ 16,375 | $ 12,074 | $ 30,195 | $ 21,641 |
| Earnings per share: | | | | |
| Basic | $ 0.49 | $ 0.36 | $ 0.90 | $ 0.65 |
| Diluted | $ 0.47 | $ 0.35 | $ 0.88 | $ 0.63 |
| Weighted-average number of shares used in computing earnings per share: | | | | |
| Basic | 33,621,444 | 33,417,079 | 33,500,736 | 33,327,169 |
| Diluted | 34,510,400 | 34,207,973 | 34,431,028 | 34,130,472 |

*See accompanying notes to consolidated financial statements.*

**EXLSERVICE HOLDINGS, INC.**

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Net income | $ 16,375 | $ 12,074 | $ 30,195 | $ 21,641 |
| Other comprehensive income/(loss): | | | | |
| Unrealized gain/(loss) on effective cash flow hedges, net of taxes ($376), ($358), $27 and $95, respectively | (1,508) | (1,116) | 526 | 690 |
| Foreign currency translation adjustment | (5,401) | (3,136) | (4,368) | (2,834) |
| Retirement benefits, net of taxes $15, $4, $20 and $10, respectively | 123 | 178 | 305 | 329 |
| Reclassification adjustments | | | | |
| Realized (gain)/loss on cash flow hedges, net of taxes ($156), $92, ($181) and $218, respectively(1) | (193) | 132 | (225) | 315 |
| Retirement benefits, net of taxes $1, $13, $2 and $16, respectively(2) | 21 | 40 | 42 | 92 |
| Total other comprehensive loss | (6,958) | (3,902) | (3,720) | (1,408) |
| Total comprehensive income | $ 9,417 | $ 8,172 | $ 26,475 | $ 20,233 |

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

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

*See accompanying notes to consolidated financial statements.*

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**EXLSERVICE HOLDINGS, INC.**

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In thousands)**

| | Six months ended June 30, 2016 | Six months ended June 30, 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 30,195 | $ 21,641 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 16,403 | 15,114 |
| Stock-based compensation expense | 10,259 | 7,809 |
| Unrealized gain on short term investments | (2,984) | (760) |
| Unrealized foreign exchange gain | (42) | (1,386) |
| Deferred income taxes | 3,607 | 3,272 |
| Change in fair value of earn-out consideration | (4,060) | — |
| Others, net | (67) | (209) |
| Change in operating assets and liabilities (net of effect of acquisitions): | | |
| Restricted cash | 314 | (1,197) |
| Accounts receivable | (19,621) | (10,013) |
| Prepaid expenses and other current assets | (1,177) | (1,143) |
| Accounts payable | (1,427) | (464) |
| Deferred revenue | 4,996 | 2,516 |
| Accrued employee costs | (10,282) | (8,175) |
| Accrued expenses and other liabilities | 4,413 | (3,058) |
| Advance income tax, net | (3,179) | 3,625 |
| Other assets | (433) | (405) |
| Net cash provided by operating activities | 26,915 | 27,167 |
| | | |
| Cash flows from investing activities: | | |
| Purchase of fixed assets | (14,872) | (14,380) |
| Business acquisition (net of cash acquired) | — | (44,270) |
| Purchase of short-term investments | (132,275) | (71,863) |
| Proceeds from redemption of short-term investments | 41,179 | 6,001 |
| Net cash used for investing activities | (105,968) | (124,512) |
| | | |
| Cash flows from financing activities: | | |
| Principal payments on capital lease obligations | (240) | (358) |
| Proceeds from borrowings | — | 30,000 |
| Repayments of borrowings | (25,000) | (10,000) |
| Payment of debt issuance costs | — | (74) |
| Acquisition of treasury stock | (9,704) | (5,105) |
| Proceeds from exercise of stock options | 4,195 | 2,366 |
| Net cash (used for)/provided by financing activities | (30,749) | 16,829 |
| Effect of exchange rate changes on cash and cash equivalents | (2,408) | (1,332) |
| Net decrease in cash and cash equivalents | (112,210) | (81,848) |
| Cash and cash equivalents, beginning of period | 205,323 | 176,499 |
| Cash and cash equivalents, end of period | $ 93,113 | $ 94,651 |

*See accompanying notes to consolidated financial statements.*

EXLSERVICE HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016
(In thousands, except share and per share amounts)

## 1. Organization and Basis of Presentation

***Organization***

ExlService Holdings, Inc. (“ExlService Holdings”) is organized as a corporation under the laws of the state of Delaware. ExlService Holdings, together with its subsidiaries (collectively, the “Company”), is a leading Operations Management and Analytics company that helps businesses enhance growth and profitability. Using its proprietary platforms, methodologies and tools the Company looks deeper to help companies 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.

***Basis of Presentation***

The unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by US GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

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.

Effective for the quarter and year ended December 31, 2015, the Company merged two of its operating segments (Operations Consulting and Finance Transformation, previously part of the Analytics and Business Transformation reportable segment) into the Consulting operating segment to reflect recent organizational changes. The Company has also revised its reportable segments to reflect management’s focus on the Analytics operating segment. All other operating segments have been aggregated into the Operations Management reportable segment.

The Company’s reportable segments are as follows:

- Operations Management, and
- Analytics

The segment information for all prior periods presented herein has been restated to conform to the current presentation. This change in segment presentation does not affect the Company’s consolidated statements of income, comprehensive income, balance sheets or statements of cash flows.

## 2. Summary of Significant Accounting Policies

***(a) Principles of Consolidation***

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

The non-controlling interest represents the minority partner’s interest in the operations of ExlService Colombia S.A.S. ("Exl Colombia") and the profits associated with the minority partner’s interest in those operations, in the consolidated balance sheets and consolidated statements of income, respectively. The non-controlling interests in such 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, service tax receivables, assets and obligations related to employee benefit plans, deferred tax valuation allowances, income-tax uncertainties and other contingencies, valuation of derivative financial instruments, stock-based compensation expense, depreciation and amortization periods, purchase price allocation, recoverability of long-term assets including goodwill and intangibles, and estimates to complete the fixed price contracts.

(In thousands, except share and per share amounts)

***(c) Other current assets***

Other current assets consists of the following:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Derivative instruments | $ 3,027 | $ 3,009 |
| Advances to suppliers | 1,673 | 1,545 |
| Receivables from statutory authorities | 10,167 | 8,676 |
| Others | 1,818 | 1,989 |
| Other current assets | $ 16,685 | $ 15,219 |

***(d) Accrued expenses and other current liabilities***

Accrued expenses and other current liabilities consists of the following:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Accrued expenses | $ 28,394 | $ 26,238 |
| Derivative instruments | 736 | 1,226 |
| Client liability account | 1,796 | 2,217 |
| Other current liabilities | 5,022 | 4,569 |
| Accrued expenses and other current liabilities | $ 35,948 | $ 34,250 |

***(e) Non-current liabilities***

Non-current liabilities consists of the following:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Derivative instruments | $ 1,060 | $ 1,132 |
| Unrecognized tax benefits | 3,107 | 3,066 |
| Deferred rent | 6,937 | 6,515 |
| Retirement benefits | 1,441 | 1,441 |
| Other non-current liabilities | 1,640 | 5,501 |
| Non-current liabilities | $ 14,185 | $ 17,655 |

***(f) Accumulated Other Comprehensive Loss***

For the Company, 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 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 June 30, 2016 and December 31, 2015 are as follows:

EXLSERVICE HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(continued)
June 30, 2016
(In thousands, except share and per share amounts)

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Cumulative currency translation adjustments | $ (72,431) | $ (68,063) |
| Unrealized gain on cash flow hedges, net of taxes of $508 and $662 | 1,125 | 824 |
| Retirement benefits, net of taxes of ($179) and ($201) | 261 | (86) |
| Accumulated other comprehensive loss | $ (71,045) | $ (67,325) |

***(g) Other Income, net***

Other income, net consists of the following:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Interest and dividend income* | $ 2,261 | $ 1,510 | $ 4,483 | $ 2,912 |
| Interest expense | (343) | (360) | (728) | (643) |
| Change in fair value of earn-out consideration** | 3,810 | — | 4,060 | — |
| Other, net | 56 | 185 | 763 | 244 |
| Other income, net | $ 5,784 | $ 1,335 | $ 8,578 | $ 2,513 |

* Includes unrealized gain of $1,459 and $2,984 on investments carried under ASC topic 825, "Financial Instruments" ("ASC 825"), fair value option for the three and six months ended June 30, 2016, respectively and $718 and $760, respectively, for the three and six months ending June 30, 2015.

** The Company recognized $3,810 and $4,060 of other income during the three and six months ended June 30, 2016 due to the changes in the fair value of the earn-out consideration related to its acquisition of RPM Direct, LLC and RPM Data Solutions, LLC (the "RPM acquisition").

***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, “Revenue from Contracts with Customers”. The new standard is effective for reporting periods beginning after December 15, 2017 and early adoption is not permitted. The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions of the Company. ASU No. 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 No. 2014-09; or (ii) retrospectively with the cumulative effect of initially applying ASU No. 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU No. 2014-09. The Company is currently evaluating the impact of adoption and the implementation approach to be used.

In January 2016, FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities". This guidance makes targeted improvements to existing US GAAP for financial instruments, including requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; requiring entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset and requiring entities to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as “own credit”) when the organization has elected to measure the liability at fair value in accordance with the fair value option. The new guidance is effective for public companies for fiscal years beginning after December 15, 2017. Early adoption of the own credit provision is permitted. 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 No. 2016-02, Leases (Topic 842). ASU No. 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 No. 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 No. 2016-02 must be calculated using the applicable incremental borrowing rate at the date of adoption. In addition, ASU No. 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 March 2016, FASB issued ASU No. 2016-05, Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, which clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The new guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. An entity has the option to apply ASU No. 2016-05 on either a prospective basis or a modified retrospective basis. Early adoption is permitted. The adoption of ASU No. 2016-05 is not expected to have a material effect on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). ASU No. 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, 2018. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

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. Early adoption is permitted but all of the guidance must be adopted in the same period. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

In June 2016, FASB issued ASU No. 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 Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

## 3. Earnings Per Share

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

(In thousands, except share and per share amounts)

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Numerators: | | | | |
| Net income | $ 16,375 | $ 12,074 | $ 30,195 | $ 21,641 |
| Denominators: | | | | |
| Basic weighted average common shares outstanding | 33,621,444 | 33,417,079 | 33,500,736 | 33,327,169 |
| Dilutive effect of share based awards | 888,956 | 790,894 | 930,292 | 803,303 |
| Diluted weighted average common shares outstanding | 34,510,400 | 34,207,973 | 34,431,028 | 34,130,472 |
| Earnings per share: | | | | |
| Basic | $ 0.49 | $ 0.36 | $ 0.90 | $ 0.65 |
| Diluted | $ 0.47 | $ 0.35 | $ 0.88 | $ 0.63 |
| Weighted average common shares considered anti-dilutive in computing diluted earnings per share | 59,455 | 62,084 | 130,103 | 116,922 |

## 4. Segment Information

The Company's operating segments are significant strategic business units that align its products and services with how it manages its business, approaches key markets and interacts with its clients. Effective for the quarter and year ended December 31, 2015, the Company merged two of its operating segments (Operations Consulting and Finance Transformation, previously part of the Analytics and Business Transformation reportable segment) into the Consulting operating segment to reflect recent organizational changes. The Company has also revised its reportable segments to reflect management’s focus on the Analytics operating segment. All the other operating segments have been aggregated into the Operations Management reportable segment.

The new reportable segments are as follows:

- Operations Management
- Analytics

The Company has restated the segment information for all prior periods presented herein to conform to the current presentation. This change in segment presentation does not affect the Company's consolidated statements of income, balance sheets or statements of cash flows.

The chief operating decision maker (“CODM”) generally reviews operating segment revenues and cost of revenues. The Company does not allocate and therefore the CODM does not evaluate operating expenses, foreign exchange gain/loss and other income/loss, net and income taxes by segment. The Company’s operating assets are shared by multiple segments. The Company manages assets on a total company basis, not by operating segment, and therefore asset information and capital expenditures by operating segment are not presented.

(In thousands, except share and per share amounts)

Revenues and cost of revenues for each of the three months ended June 30, 2016 and 2015 for the Company's Operations Management and Analytics segments, respectively, are as follows:

| | Three Months Ended June 30, 2016 | | | Three Months Ended June 30, 2015 | | |
|---|---|---|---|---|---|---|
| | Operations Management | Analytics | Total | Operations Management | Analytics | Total |
| Revenues, net | $ 130,869 | $ 39,609 | $ 170,478 | $ 125,048 | $ 30,573 | $ 155,621 |
| Cost of revenues (exclusive of depreciation and amortization) | 86,482 | 25,544 | 112,026 | 80,809 | 19,669 | 100,478 |
| Gross profit | $ 44,387 | $ 14,065 | $ 58,452 | $ 44,239 | $ 10,904 | $ 55,143 |
| Operating expenses | | | 42,216 | | | 39,895 |
| Foreign exchange gain and Other income, net | | | 7,147 | | | 2,357 |
| Income tax expense | | | 7,008 | | | 5,531 |
| Net income | | | $ 16,375 | | | $ 12,074 |

Revenues and cost of revenues for each of the six months ended June 30, 2016 and 2015 for the Company's Operations Management and Analytics segments, respectively, are as follows:

| | Six months ended June 30, 2016 | | | Six months ended June 30, 2015 | | |
|---|---|---|---|---|---|---|
| | Operations Management | Analytics | Total | Operations Management | Analytics | Total |
| Revenues, net | $ 258,939 | $ 78,575 | $ 337,514 | $ 248,901 | $ 50,230 | $ 299,131 |
| Cost of revenues (exclusive of depreciation and amortization) | 170,090 | 50,315 | 220,405 | 160,538 | 33,065 | 193,603 |
| Gross profit | $ 88,849 | $ 28,260 | $ 117,109 | $ 88,363 | $ 17,165 | $ 105,528 |
| Operating expenses | | | 84,421 | | | 76,812 |
| Foreign exchange gain and Other income, net | | | 10,410 | | | 4,669 |
| Income tax expense | | | 12,903 | | | 11,744 |
| Net income | | | $ 30,195 | | | $ 21,641 |

## 5. Goodwill and Intangible Assets

***Goodwill***

The following table sets forth details of the Company’s goodwill balance as of June 30, 2016:

| | Operations Management | Analytics | Total |
|---|---|---|---|
| Balance at January 1, 2015 | $ 122,814 | $ 16,785 | $ 139,599 |
| Goodwill arising from RPM acquisition | — | 33,155 | 33,155 |
| Currency translation adjustments | (1,219) | — | (1,219) |
| Balance at December 31, 2015 | $ 121,595 | $ 49,940 | $ 171,535 |
| Currency translation adjustments | (500) | — | (500) |
| Balance at June 30, 2016 | $ 121,095 | $ 49,940 | $ 171,035 |

***Intangible Assets***

(In thousands, except share and per share amounts)

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

| | As of June 30, 2016 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationships | $ 64,799 | $ (28,163) | $ 36,636 |
| Developed technology | 12,234 | (5,370) | 6,864 |
| Trade names and trademarks | 5,670 | (2,973) | 2,697 |
| Leasehold benefits | 2,732 | (2,164) | 568 |
| Non-compete agreements | 2,045 | (1,532) | 513 |
| | $ 87,480 | $ (40,202) | $ 47,278 |

| | As of December 31, 2015 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationships | $ 64,816 | $ (24,215) | $ 40,601 |
| Developed technology | 12,234 | (4,363) | 7,871 |
| Trade names and trademarks | 5,670 | (2,683) | 2,987 |
| Leasehold benefits | 2,789 | (2,109) | 680 |
| Non-compete agreements | 2,045 | (1,451) | 594 |
| | $ 87,554 | $ (34,821) | $ 52,733 |

Amortization expense for the three months ended June 30, 2016 and 2015 was $2,718 and $2,808, respectively, and for the six months ended June 30, 2016 and 2015 was $5,433 and $4,867, respectively. The remaining weighted average life of intangible assets was 6.0 years for customer relationships, 4.3 years for developed technology, 5.9 years for trade names and trademarks excluding indefinite life trade names and trademarks, 2.9 years for leasehold benefits and 3.0 years for non-compete agreements. The Company has $900 of indefinite lived trade names and trademarks as of June 30, 2016 and December 31, 2015.

| Estimated amortization of intangible assets during the year ending June 30, | |
|---|---|
| 2017 | $ 10,858 |
| 2018 | $ 10,617 |
| 2019 | $ 10,391 |
| 2020 | $ 6,288 |
| 2021 and thereafter | $ 8,224 |

(In thousands, except share and per share amounts)

## 6. Fair Value Measurements

***Assets and Liabilities Measured at Fair Value***

The following table sets forth the Company's assets and liabilities that were accounted for at fair value as of June 30, 2016 and December 31, 2015. The table excludes accounts receivable, accounts payable and accrued expenses for which fair values approximate their carrying amounts.

| As of June 30, 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Money market and mutual funds* | $ 105,947 | $ — | $ — | $ 105,947 |
| Derivative financial instruments | — | 3,602 | — | 3,602 |
| Total | $ 105,947 | $ 3,602 | $ — | $ 109,549 |
| **Liabilities** | | | | |
| Derivative financial instruments | $ — | $ 1,796 | $ — | $ 1,796 |
| Total | $ — | $ 1,796 | $ — | $ 1,796 |

| As of December 31, 2015 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Money market and mutual funds | $ 118,478 | $ — | $ — | $ 118,478 |
| Derivative financial instruments | — | 4,184 | — | 4,184 |
| Total | $ 118,478 | $ 4,184 | $ — | $ 122,662 |
| **Liabilities** | | | | |
| Derivative financial instruments | $ — | $ 2,358 | $ — | $ 2,358 |
| Fair value of earn-out consideration | — | — | 4,060 | 4,060 |
| Total | $ — | $ 2,358 | $ 4,060 | $ 6,418 |

* Includes short-term investments carried on fair value option under ASC 825 of $94,779 as of June 30, 2016.

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

*Fair value of earn-out consideration:* The fair value measurement of earn-out consideration is determined using Level 3 inputs. The Company's earn-out consideration represents a component of the total purchase consideration for the March 2015 RPM acquisition. The measurement is calculated using unobservable inputs based on the Company's own assessment of achievement of certain performance goals by RPM during the 2015 and 2016 calendar years. As of December 31, 2015, the Company estimated the fair value of the earn out consideration to be $4,060, utilizing a Monte Carlo simulation. During the six months ended June 30, 2016, the Company re-estimated its earn-out liability utilizing a Monte Carlo simulation based on its assessment of the achievement of the performance goals of RPM during calendar year 2016 and accordingly reduced the liability to nil as of June 30, 2016.

The Monte-Carlo simulation model simulates a range of possible performance levels and estimates the probabilities of the potential payouts. This model also incorporates a range of assumptions like discount rate, risk-free rate, assumed cost of debt, etc.

(In thousands, except share and per share amounts)

## 7. Derivatives and Hedge Accounting

The Company uses derivative instruments and hedging transactions to mitigate exposure to foreign currency fluctuation risks associated with forecasted transactions denominated in certain foreign currencies and to minimize earnings and cash flow volatility associated with changes in foreign currency exchange rates. The Company's derivative financial instruments consist of forward foreign exchange contracts and range forward contracts (a transaction where both a put option is purchased and a call option is sold), that are designated effective and that qualify as cash flow hedges under ASC 815. The Company had outstanding cash flow hedges totaling $219,427 (including $5,100 of range forward contracts) as of June 30, 2016 and $230,894 as of December 31, 2015. The fair value of these cash flow hedges is included in the accumulated other comprehensive loss ("AOCI")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 No. 815. Changes in the fair value of these derivatives are recognized in the 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 ZAR and other local currencies in which it operates. Outstanding foreign currency forward contracts amounted to $59,868 and GBP 16,823 as of June 30, 2016 and amounted to $61,641 and GBP 13,256 as of December 31, 2015.

The Company estimates that approximately $2,113 of net derivative gains included in AOCI could be reclassified into earnings within the next twelve months based on exchange rates prevailing as of June 30, 2016. At June 30, 2016, 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 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 AOCI into earnings during the three and six months ended June 30, 2016 and 2015.

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:***

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| **Other current assets:** | | |
| Foreign currency exchange contracts | $ 2,795 | $ 2,664 |
| **Other assets:** | | |
| Foreign currency exchange contracts | $ 575 | $ 1,175 |
| **Accrued expenses and other current liabilities:** | | |
| Foreign currency exchange contracts | $ 682 | $ 1,226 |
| **Other non current liabilities:** | | |
| Foreign currency exchange contracts | $ 1,060 | $ 1,132 |

(In thousands, except share and per share amounts)

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

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| **Other current assets:** | | |
| Foreign currency exchange contracts | $ 232 | $ 345 |
| **Accrued expenses and other current liabilities:** | | |
| Foreign currency exchange contracts | $ 54 | — |

The following tables set forth the effect of foreign currency exchange contracts on the unaudited consolidated statements of income for the three months ended June 30, 2016 and 2015:

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain/(Loss) Recognized in AOCI on Derivative (Effective Portion) | | Location of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion) | Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion) | | Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | | 2016 | 2015 | | 2016 | 2015 |
| Foreign exchange contracts | $ (1,884) | $ (1,474) | Foreign exchange gain/(loss) | $ 349 | $ (224) | Foreign exchange gain/(loss) | $ — | $ — |

| Derivatives not designated as Hedging Instruments | Location of Gain or (Loss) Recognized in Income on Derivatives | Amount of Gain/(Loss) Recognized in Income on Derivatives | |
|---|---|---|---|
| | | 2016 | 2015 |
| Foreign exchange contracts | Foreign exchange gain/(loss) | $ 999 | $ (1,297) |

The following tables set forth the effect of foreign currency exchange contracts on the unaudited consolidated statements of income for the six months ended June 30, 2016 and 2015:

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain/(Loss) Recognized in AOCI on Derivative (Effective Portion) | | Location of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion) | Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion) | | Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | | 2016 | 2015 | | 2016 | 2015 |
| Foreign exchange contracts | $ 553 | $ 785 | Foreign exchange gain/(loss) | $ 406 | $ (533) | Foreign exchange loss | $ — | $ — |

| Derivatives not designated as Hedging Instruments | Location of Gain or (Loss) Recognized in Income on Derivatives | Amount of Gain/(Loss) Recognized in Income on Derivatives | |
|---|---|---|---|
| | | 2016 | 2015 |
| Foreign exchange contracts | Foreign exchange gain/(loss) | $ 2,728 | $ 799 |

(In thousands, except share and per share amounts)

## 8. Fixed Assets

Fixed assets consist of the following:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| **Owned Assets:** | | |
| Network equipment, computers and software | $ 101,957 | $ 95,245 |
| Leasehold improvements | 30,501 | 28,603 |
| Office furniture and equipment | 14,650 | 14,000 |
| Capital work in progress | 3,526 | 3,140 |
| Buildings | 1,178 | 1,202 |
| Land | 771 | 787 |
| Motor vehicles | 555 | 540 |
| | 153,138 | 143,517 |
| Less: Accumulated depreciation and amortization | (103,866) | (96,079) |
| | $ 49,272 | $ 47,438 |
| **Assets under capital leases:** | | |
| Leasehold improvements | $ 839 | $ 877 |
| Office furniture and equipment | 110 | 136 |
| Motor vehicles | 744 | 806 |
| | 1,693 | 1,819 |
| Less: Accumulated depreciation and amortization | (1,257) | (1,266) |
| | $ 436 | $ 553 |
| Fixed assets, net | $ 49,708 | $ 47,991 |

Depreciation and amortization expense excluding amortization of acquisition-related intangibles for the three months ended June 30, 2016 and 2015 was $5,552, and $5,253, respectively, and for the six months ended June 30, 2016 and 2015 was $10,970 and $10,247, respectively.

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

## 9. Capital Structure

***Common Stock***

The Company has one class of common stock outstanding.

During the three months ended June 30, 2016 and 2015, the Company acquired 1,479 and 707 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 $76 and $24, respectively. The weighted average purchase price of $51.39 and $33.68, respectively, was the average of the high and low price of a share of the Company's common stock on the Nasdaq Global Select Market on the trading day prior to the vesting date of the shares of restricted stock.

During the six months ended June 30, 2016 and 2015, the Company acquired 16,027 and 13,573 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 $728 and $421, respectively. The weighted average purchase price of $45.44 and $30.99, respectively, was the average of the high and low price of a share of the Company's common stock on the Nasdaq Global Select Market on the trading day prior to the vesting date of the shares of restricted stock.

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

During the three and six months ended June 30, 2016, the Company purchased 56,172 and 194,810 shares of its common stock, respectively, for an aggregate purchase price of approximately $2,773 and $8,975, respectively, including commissions, representing an average purchase price per share of $49.37 and $46.07, respectively, under the 2014 Repurchase program.

During the three and six months ended June 30, 2015, the Company purchased 133,869 shares of its common stock for an aggregate purchase price of approximately $4,685 including commissions, representing an average purchase price per share of $35.00 under the 2014 Repurchase Program.

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.

**10. Borrowings**

On October 24, 2014, the Company entered into a credit agreement (as amended, the "Credit Agreement") with certain lenders and JPMorgan Chase Bank, N.A., as Administrative Agent. The Credit Agreement, as amended, provides for a $100,000 revolving credit facility (the "Credit Facility"), including a letter of credit sub-facility. 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 Company has outstanding debt of $45,000 and $70,000 as of June 30, 2016 and December 31, 2015, respectively, of which $10,000 is expected to be repaid within the next twelve months and is included under "short-term borrowings" in the unaudited consolidated balance sheets. The Credit Facility carried an effective interest rate of approximately 1.95% and 1.56% per annum, respectively during the three months ended June 30, 2016 and 2015, 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 June 30, 2016 and December 31, 2015 were $320 and $368, respectively and are included under "other current assets" and "other assets" in the unaudited consolidated balance sheets.

The obligations under the Credit Agreement are secured by all or substantially all of the assets of the Company and its material domestic subsidiaries. The Credit Agreement contains certain covenants including a restriction on indebtedness of the Company. As of June 30, 2016, the Company was in compliance with all covenants.

**11. Employee Benefit Plans**

The Company's Gratuity Plans in India and the Philippines ("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 thousands, except share and per share amounts)

Net gratuity cost includes the following components:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Service cost | $ 401 | $ 415 | $ 801 | $ 838 |
| Interest cost | 150 | 140 | 299 | 282 |
| Expected return on plan assets | (104) | (97) | (208) | (197) |
| Actuarial loss | 22 | 53 | 44 | 108 |
| Net gratuity cost | $ 469 | $ 511 | $ 936 | $ 1,031 |

The Gratuity Plan in India is partially funded. 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 9.0% each on these Gratuity Plans for the years ended March 31, 2016 and 2015.

| Change in Plan Assets | |
|---|---|
| Plan assets at January 1, 2016 | $ 4,923 |
| Actual return | 218 |
| Benefits paid | (451) |
| Effect of exchange rate changes | (99) |
| Plan assets at June 30, 2016 | $ 4,591 |

The Company maintains the Exl Service 401(k) Plan (the “401(k) Plan”) under Section 401(k) of the Internal Revenue Code of 1986 (the “Code”), covering all eligible employees, as defined. The Company may make discretionary contributions of up to a maximum of 3% of employee compensation within certain limits. The Company has made provisions for contributions to the 401(k) Plan amounting to $475 and $383 during the three months ended June 30, 2016 and 2015, respectively, and $1,391 and $1,151 during the six months ended June 30, 2016 and 2015, respectively.

During the three months ended June 30, 2016 and 2015, the Company contributed $1,566 and $1,465, respectively, and during the six months ended June 30, 2016 and 2015, the Company contributed $3,048 and $2,930, respectively, for various defined contribution plans on behalf of its employees in India, the Philippines, Romania, Bulgaria, Colombia, Singapore, South Africa and the Czech Republic.

**12. Leases**

The Company finances its use of certain motor vehicles under lease arrangements provided by financial institutions. Future minimum lease payments under these capital leases as of June 30, 2016 are as follows:

(In thousands, except share and per share amounts)

| | |
|---|---|
| Year ending June 30, | |
| 2017 | $ 287 |
| 2018 | 143 |
| 2019 | 82 |
| 2020 | 45 |
| Total minimum lease payments | 557 |
| Less: amount representing interest | 84 |
| Present value of minimum lease payments | 473 |
| Less: current portion | 221 |
| Long term capital lease obligation | $ 252 |

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-cancellable agreements expiring after June 30, 2016 are set forth below:

| | |
|---|---|
| Year ending June 30, | |
| 2017 | $ 9,069 |
| 2018 | 7,601 |
| 2019 | 6,324 |
| 2020 | 3,096 |
| 2021 | 1,876 |
| 2022 and thereafter | 1,668 |
| | $ 29,634 |

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 the non-cancelable lease period determined under ASC topic 840, “Leases”. Rent expense under both cancelable and non-cancelable operating leases was $5,278 and $5,110 for the three months ended June 30, 2016 and 2015, respectively and $10,426 and $10,095, respectively for the six months ended June 30, 2016 and 2015. Deferred rent as of June 30, 2016 and December 31, 2015 was $7,534 and $7,066, respectively, and is included under “Accrued expenses and other current liabilities” and “Non-current liabilities” in the consolidated balance sheets.

**13. Income Taxes**

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

The Company recorded income tax expense of $7,008 and $5,531, respectively, for the three months ended June 30, 2016 and 2015. The effective tax rate decreased from 31.4% during the three months ended June 30, 2015 to 30.0% during the three months ended June 30, 2016. The effective tax rate decreased due to an increase in earnings in locations with lower tax rates as well as tax incentives, partially offset by the reversal of the earn-out liability of $3,810 in other income during the three months ended June 30, 2016 related to the Company's RPM acquisition.

The Company recorded income tax expense of $12,903 and $11,744, respectively, for the six months ended June 30, 2016 and 2015. The effective tax rate decreased from 35.2% during the six months ended June 30, 2015 to 29.9% during the six months ended June 30, 2016. The decrease was the result of (i) higher income tax expense during the six months ended June 30, 2015 due to certain adjustments (resulting in an increase in income tax expense of $1,818) and (ii) an increase in earnings in the locations with lower tax rates as well as tax incentives. The decrease in effective tax rate was partially offset by the reversal of earn-out liability of $4,060 in other income during six months ended June 30, 2016 related to the Company's RPM acquisition.

(In thousands, except share and per share amounts)

The following table summarizes the activity related to the gross unrecognized tax benefits from January 1, 2016 through June 30, 2016:

| | | |
|---|---|---|
| Balance as of January 1, 2016 | $ | 2,797 |
| Increases related to prior year tax positions | | — |
| Decreases related to prior year tax positions | | — |
| Increases related to current year tax positions | | — |
| Decreases related to current year tax positions | | — |
| Effect of exchange rate changes | | (36) |
| Balance as of June 30, 2016 | $ | 2,761 |

The unrecognized tax benefits as of June 30, 2016 of $2,761 if recognized, would impact the effective tax rate.

During the three months ended June 30, 2016 and 2015, the Company has recognized interest of $49 and $52, respectively, which are included in the income tax expense in the unaudited consolidated statements of income. As of June 30, 2016 and December 31, 2015, the Company has accrued approximately $1,346 and $1,269, respectively, in interest relating to unrecognized tax benefits.

## 14. Stock Based Compensation

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Cost of revenue | $ 788 | $ 551 | $ 2,053 | $ 1,654 |
| General and administrative expenses | 1,964 | 1,386 | 4,336 | 2,869 |
| Selling and marketing expenses | 1,698 | 1,616 | 3,870 | 3,286 |
| Total | $ 4,450 | $ 3,553 | $ 10,259 | $ 7,809 |

As of June 30, 2016, the Company had 1,975,484 shares available for grant under the 2015 Amendment and Restatement of the 2006 Omnibus Award Plan.

### Stock Options

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

| | Number of Options | Weighted-Average Exercise Price | Aggregate Intrinsic Value | Weighted-Average Remaining Contractual Life (Years) |
|---|---|---|---|---|
| Outstanding at December 31, 2015 | 1,210,141 | $ 16.31 | $ 34,638 | 3.50 |
| Granted | — | — | | |
| Exercised | (267,280) | 15.70 | | |
| Forfeited | — | — | | |
| Outstanding at June 30, 2016 | 942,861 | $ 16.48 | $ 33,877 | 3.30 |
| Vested and exercisable at June 30, 2016 | 942,861 | $ 16.48 | $ 33,877 | 3.30 |

The unrecognized compensation cost for unvested options as of June 30, 2016 is nil. The Company did not grant any options during the three and six months ended June 30, 2016 and 2015. There were no options that vested during the three months ended

(In thousands, except share and per share amounts)

June 30, 2016. The total grant date fair value of options vested during the six months ended June 30, 2016 was $706. The total grant date fair value of options vested during the three and six months ended June 30, 2015 was $44 and $1,170, 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-Average Intrinsic Value | Number | Weighted-Average Intrinsic Value |
| Outstanding at December 31, 2015* | 134,935 | $ 35.27 | 1,228,287 | $ 30.06 |
| Granted | — | — | 393,916 | 48.65 |
| Vested | (15,057) | 34.61 | (326,632) | 28.69 |
| Forfeited | — | — | (49,973) | 31.08 |
| Outstanding at June 30, 2016* | 119,878 | $ 35.36 | 1,245,598 | $ 36.26 |

* *As of June 30, 2016 and December 31, 2015 restricted stock units vested for which the underlying common stock is yet to be issued are 169,238 and 149,364, respectively.*

As of June 30, 2016, unrecognized compensation cost of $40,648 is expected to be expensed over a weighted average period of 2.83 years.

**Performance Based Stock Awards**

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

| | Revenue Based PRSUs | | Market Condition Based PRSUs | |
|---|---|---|---|---|
| | Number | Weighted Avg Fair Value | Number | Weighted Avg Fair Value |
| Outstanding at December 31, 2015 | 107,213 | $ 30.88 | 207,212 | $ 38.80 |
| Granted | 59,861 | 48.57 | 59,859 | 67.94 |
| Vested | — | — | — | — |
| Forfeited | (4,500) | 37.05 | (4,500) | 56.85 |
| Outstanding at June 30, 2016* | 162,574 | $ 37.22 | 262,571 | $ 45.14 |

As of June 30, 2016, unrecognized compensation cost of $11,873 is expected to be expensed over a weighted average period of 1.96 years.

**15. Geographical Information**

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Revenues, net** | | | | |
| United States | $ 136,151 | $ 122,840 | $ 270,225 | $ 234,705 |
| United Kingdom | 28,863 | 27,453 | 56,291 | 53,288 |
| Rest of World | 5,464 | 5,328 | 10,998 | 11,138 |
| | $ 170,478 | $ 155,621 | $ 337,514 | $ 299,131 |

(In thousands, except share and per share amounts)

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| **Fixed assets, net** | | |
| India | $ 23,789 | $ 23,415 |
| United States | 11,079 | 10,680 |
| Philippines | 11,792 | 11,285 |
| Rest of World | 3,048 | 2,611 |
| | $ 49,708 | $ 47,991 |

**16. Commitments and Contingencies**

***Fixed Asset Commitments***

At June 30, 2016, the Company has committed to spend approximately $4,100 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 related to its transfer pricing issues for years ranging from tax years 2003 to 2013 and its permanent establishment issues ranging from tax years 2003 to 2007 as of June 30, 2016 and December 31, 2015 is $20,449 and $21,360, respectively, of which the Company has made payments or provided a bank guarantee to the extent of $14,198 and $14,668, respectively. Amounts paid as deposits in respect of such assessments aggregating to $12,236 and $12,665 as of June 30, 2016 and December 31, 2015, respectively, are included in “Other assets” and amounts deposited for bank guarantees aggregating to $1,962 and $2,003 as of June 30, 2016 and December 31, 2015, respectively, are included in “Restricted cash” in the non-current assets section of the Company’s consolidated balance sheets as of June 30, 2016 and December 31, 2015.

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.

**17. Subsequent Event**

On July 1, 2016, the Company, together with its wholly-owned subsidiary ExlService (UK) Limited, purchased Liss Systems Limited ("Liss"), a company incorporated under the laws of England and Wales for a total consideration of GBP 5,500 (including cash of GBP 4,300 and restricted stock of GBP 1,200). Liss is a London-based provider of digital customer acquisition and policy administration solutions for the insurance industry.

## 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, 2015. Some of the statements in the following discussion are forward looking statements. See "Forward Looking Statements." Dollar amounts within Item 2 are presented as actual, approximated, dollar amounts.*

### 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;
- our ability to successfully consummate or integrate strategic acquisitions;
- restrictions on immigration;
- our ability to hire and retain enough sufficiently trained employees to support our operations;
- our ability to grow our business or effectively manage growth and international operations;
- increasing competition in our industry;
- telecommunications or technology disruptions;
- our ability to withstand the loss of a significant customer ;
- regulatory, legislative and judicial developments, including changes to or the withdrawal of governmental fiscal incentives;
- technological innovation;
- political or economic instability in the geographies in which we operate;
- unauthorized disclosure of sensitive or confidential client and customer data; and
- adverse outcome of our disputes with the Indian tax authorities.

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

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

### Executive Overview

We are a leading Operations Management and Analytics company that helps businesses enhance growth and profitability. Using our proprietary platforms, methodologies and tools we look deeper to help companies improve global operations, enhance data-driven insights, increase customer satisfaction, and manage risk and compliance. We serve the insurance, healthcare, banking and financial services, utilities and travel, transportation and logistics industries, among others.

Our operating segments are significant strategic business units that align our products and services with how we manage our business, approach our key markets and interact with our clients. Effective for the quarter and year ended December 31, 2015, we merged two of our operating segments (Operations Consulting and Finance Transformation, previously part of the Analytics and Business Transformation reportable segment) into the Consulting operating segment to reflect recent organizational changes. We have also revised our reportable segments to reflect management's focus on the Analytics operating segment. All our other operating segments have been aggregated into the Operations Management reportable segment.

Our current reportable segments are as follows:

- Operations Management, and
- Analytics

We have restated the segment information for all prior periods presented herein to conform to the current presentation. 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 4 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. During the three months ended June 30, 2016, we established two new operating centers, one each in India and the Philippines.

**Revenues**

For the three months ended June 30, 2016, we had revenues of $170.5 million compared to revenues of $155.6 million for the three months ended June 30, 2015, an increase of $14.9 million, or 9.5%. Revenues from operations management services were $130.9 million for the three months ended June 30, 2016 compared to $125.0 million for the three months ended June 30, 2015. Revenues from analytics services were $39.6 million for the three months ended June 30, 2016 compared to $30.6 million for the three months ended June 30, 2015.

For the six months ended June 30, 2016, we had revenues of $337.5 million compared to revenues of $299.1 million for the six months ended June 30, 2015, an increase of $38.4 million, or 12.8%. Revenues from operations management services were $258.9 million for the six months ended June 30, 2016 compared to $248.9 million for the six months ended June 30, 2015. Revenues from analytics services were $78.6 million for the six months ended June 30, 2016 compared to $50.2 million for the six months ended June 30, 2015.

We serve clients mainly in the U.S. and the U.K., with these two regions generating approximately 79.9% and 16.9%, respectively, of our total revenues for the three months ended June 30, 2016 and approximately 78.9% and 17.6%, respectively, of our revenues for the three months ended June 30, 2015. For the six months ended June 30, 2016, these two regions generated 80.1% and 16.7%, respectively, of our total revenues and 78.5% and 17.8%, respectively, of our total revenues for the six months ended June 30, 2015.

For the three months ended June 30, 2016 and 2015, our total revenues from our top ten clients accounted for 40.2% and 42.0% of our total revenues, respectively. For the six months ended June 30, 2016 and 2015, our total revenues from our top ten clients accounted for 40.4% and 42.9% of our total revenues, respectively. None of our clients accounted for more than 10% of our total revenues during the three and six months ended June 30, 2016 and 2015. Although we are continually increasing and diversifying our customer base, we expect in the near future that a significant portion of our revenue will continue to be contributed by a limited number of large clients.

**Our Business**

Our business is divided into two reporting segments: Operations Management and Analytics. 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: We provide our clients with a range of operations management solutions principally in the insurance, healthcare, utilities, banking and financial services, and travel, transportation and logistics sectors, among others, as well as cross-industry operations management solutions, such as finance and accounting services.

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

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

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

*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 Operations Management as part of a comprehensive solution 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 2015 Annual Report on Form 10-K for the year ended December 31, 2015.

**Results of Operations**

The following table summarizes our results of operations for the three months ended June 30, 2016 and 2015:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (dollars in millions) | | (dollars in millions) | |
| Revenues, net | $ 170.5 | $ 155.6 | $ 337.5 | $ 299.1 |
| Cost of revenues (exclusive of depreciation and amortization) | 112.0 | 100.5 | 220.4 | 193.6 |
| Gross profit | 58.5 | 55.1 | 117.1 | 105.5 |
| Operating expenses: | | | | |
| General and administrative expenses | 21.1 | 20.0 | 41.8 | 38.6 |
| Selling and marketing expenses | 12.8 | 11.8 | 26.3 | 23.1 |
| Depreciation and amortization | 8.3 | 8.1 | 16.4 | 15.1 |
| Total operating expenses | 42.2 | 39.9 | 84.5 | 76.8 |
| Income from operations | 16.3 | 15.2 | 32.6 | 28.7 |
| Foreign exchange gain | 1.4 | 1.0 | 1.8 | 2.2 |
| Other income, net | 5.8 | 1.4 | 8.6 | 2.5 |
| Income before income taxes | 23.5 | 17.6 | 43.0 | 33.4 |
| Income tax expense | 7.0 | 5.5 | 12.9 | 11.8 |
| Net income | $ 16.5 | $ 12.1 | $ 30.1 | $ 21.6 |

***Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015***

***Revenues.***

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 | Change | Percentage change |
|---|---|---|---|---|
| | (dollars in millions) | | | |
| Operations Management | $ 130.9 | $ 125.0 | $ 5.9 | 4.7% |
| Analytics | 39.6 | 30.6 | 9.0 | 29.6% |
| Total revenues, net | $ 170.5 | $ 155.6 | $ 14.9 | 9.5% |

Revenues for the three months ended June 30, 2016 were $170.5 million, up $14.9 million or 9.5% compared to the three months ended June 30, 2015.

Revenue growth in Operations Management of $5.9 million was driven by net volume increases from our new and existing clients of $8.2 million. This increase in revenues was offset by a $2.3 million impact due to the depreciation of the Indian rupee, the U.K. pound sterling and the Philippine peso against the U.S. dollar during the three months ended June 30, 2016 compared to the three months ended June 30, 2015.

Revenue growth in Analytics of $9.0 million was driven by net volume increases in our recurring and project based engagements from our existing clients of $9.1 million and new client wins of $0.4 million. The increase was offset by a decrease of $0.5 million due to the depreciation of the U.K. pound sterling against the U.S. dollar during the three months ended June 30, 2016 compared to the three months ended June 30, 2015.

***Cost of Revenues.***

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 | Change | Percentage change |
|---|---|---|---|---|
| | (dollars in millions) | | | |
| Revenues, net | $ 170.5 | $ 155.6 | $ 14.9 | 9.5% |
| Cost of revenues | 112.0 | 100.5 | 11.5 | 11.5% |
| Gross profit | $ 58.5 | $ 55.1 | $ 3.4 | 6.0% |
| As a percentage of revenues | 34.3% | 35.4% | | |

The increase in cost of revenues was primarily due to an increase in employee-related costs of $10.6 million primarily due to annual wage increases and an increase in our average headcount of personnel directly involved in providing services to our clients. We also experienced an increase in facilities, technology and other operating expenses of $3.5 million and in reimbursable expenses of $0.9 million, resulting in a corresponding increase in revenues. These increases were partially offset by a decrease of $3.5 million due to the impact of depreciation of the Indian rupee, the U.K pound sterling and the Philippine peso against the U.S. dollar during the three months ended June 30, 2016 compared to the three months ended June 30, 2015.

***Gross Profit***. Gross profit increased by $3.4 million, or 6.0%, from $55.1 million for the three months ended June 30, 2015 to $58.5 million for the three months ended June 30, 2016. The increase was primarily due to higher revenues in our Analytics services and depreciation of the Indian rupee, the Philippine peso and the U.K. pound sterling against the U.S. dollar.

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

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 | Change | Percentage change |
|---|---|---|---|---|
| | (dollars in millions) | | | |
| General and administrative expenses | $ 21.1 | $ 20.0 | $ 1.1 | 5.5% |
| Selling and marketing expenses | 12.8 | 11.8 | 1.0 | 8.5% |
| Selling, general and administrative expenses | $ 33.9 | $ 31.8 | $ 2.1 | 6.6% |
| As a percentage of revenues | 19.9% | 20.5% | | |

The increase in SG&A expenses was primarily due to an increase in employee-related costs of $2.2 million due to annual wage increments and an increase in our average headcount to support increased business volume. We also experienced an increase in our other SG&A expenses of $0.5 million primarily due to an increase in our facilities costs in connection with our new operations centers in India and the Philippines and other travel and marketing related costs. This increase was partially offset by a decrease of $0.6 million due to the impact of depreciation of the Indian rupee, the U.K. pound sterling and the Philippine peso against the U.S. dollar during the three months ended June 30, 2016 compared to the three months ended June 30, 2015.

***Depreciation and Amortization.***

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 | Change | Percentage change |
|---|---|---|---|---|
| | (dollars in millions) | | | |
| Depreciation expense | $ 5.6 | $ 5.3 | $ 0.3 | 5.7 % |
| Intangible amortization expense | 2.7 | 2.8 | (0.1) | (3.6)% |
| Depreciation and amortization expense | $ 8.3 | $ 8.1 | $ 0.2 | 2.6 % |
| As a percentage of revenues | 4.9% | 5.2% | | |

Depreciation and amortization expense increased by $0.2 million, or 2.6%, from $8.1 million for the three months ended June 30, 2015 to $8.3 million for the three months ended June 30, 2016. The increase in depreciation expense of $0.6 million is primarily due to depreciation related to our new capital investments in India, South Africa and the Philippines to support the business growth. The increase was partially offset by a decrease of $0.3 million due to depreciation of the Indian rupee and the Philippine peso against the U.S. dollar during the three months ended June 30, 2016 compared to the three months ended June 30, 2015.

***Income from Operations.*** Income from operations increased $1.0 million, or 6.5%, from $15.2 million for the three months ended June 30, 2015 to $16.2 million for the three months ended June 30, 2016. As a percentage of revenues, income from operations decreased from 9.8% for the three months ended June 30, 2015 to 9.5% for the three months ended June 30, 2016.

***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 June 30, 2016. The average exchange rate of the Indian rupee against the U.S. dollar increased from 63.60 during the three months ended June 30, 2015 to 67.06 during the three months ended June 30, 2016. The average exchange rate of the U.K. pound sterling against the U.S. dollar increased from 0.65 during the three months ended June 30, 2015 to 0.70 during the three months ended June 30, 2016. The average exchange rate of the Philippine peso against the U.S. dollar increased from 44.73 during the three months ended June 30, 2015 to 46.90 during the three months ended June 30, 2016.

We recorded a net foreign exchange gain of $1.4 million for the three months ended June 30, 2016 compared to $1.0 million for the three months ended June 30, 2015.

***Interest and Other Income, net***

| | Three months ended June 30, 2016 | Three months ended June 30, 2015 | Change | Percentage change |
|---|---|---|---|---|
| | (dollars in millions) | | | |
| Interest and dividend income | $ 2.3 | $ 1.5 | $ 0.8 | 53.3 % |
| Interest expense | (0.3) | (0.4) | 0.1 | 25.0 % |
| Change in fair value of earn-out consideration | 3.8 | — | 3.8 | 100.0 % |
| Other, net | — | 0.2 | (0.2) | (100.0)% |
| Other income, net | $ 5.8 | $ 1.3 | $ 4.5 | 333.3 % |

Increase in interest and dividend income was primarily due to higher cash balances in our foreign subsidiaries and higher yield on our investments during the three months ended June 30, 2016 compared to the three months ended June 30, 2015. Other income further increased by $3.8 million due to reversal of earn-out liability related to our RPM acquisition.

***Income Tax Expense.*** The effective tax rate decreased from 31.4% during the three months ended June 30, 2015 to 30.0% during the three months ended June 30, 2016. The effective tax rate decreased due to an increase in earnings in locations with lower tax rates as well as tax incentives, partially offset by the reversal of the earn-out liability of $3.8 million in other income during the three months ended June 30, 2016, related to our RPM acquisition.

***Net Income.*** Net income increased from $12.1 million for the three months ended June 30, 2015 to $16.4 million for the three months ended June 30, 2016, primarily due to higher income from operations of $1.0 million and an increase in other income and foreign exchange gain of $4.8 million, partially offset by a higher income tax expense of $1.5 million. As a percentage of revenues, net income increased from 7.8% for the three months ended June 30, 2015 to 9.6% for the three months ended June 30, 2016.

***Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015***

***Revenues.***

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| | 2016 | 2015 | Change | Percentage change |
| | (dollars in millions) | | | |
| Operations Management | $ 258.9 | $ 248.9 | $ 10.0 | 4.0% |
| Analytics | 78.6 | 50.2 | 28.4 | 56.4% |
| Total revenues, net | $ 337.5 | $ 299.1 | $ 38.4 | 12.8% |

Revenues for the six months ended June 30, 2016 were $337.5 million, up $38.4 million or 12.8% compared to the six months ended June 30, 2015.

Revenue growth in Operations Management of $10.0 million was driven by net volume increases from our new and existing clients of $15.1 million. This increase in revenues was offset by a $5.1 million impact due to the depreciation of the Indian rupee, the U.K. pound sterling and the Philippine peso against the U.S. dollar during the six months ended June 30, 2016 compared to the three months ended June 30, 2015.

Revenue growth in Analytics of $28.4 million was driven by an incremental revenue of $11.9 million from our RPM acquisition and net volume increases in our recurring and project based engagements from our existing clients of $16.5 million and new client wins of $0.8 million. The increase was offset by a decrease of $0.8 million due to the depreciation of the U.K. pound sterling against the U.S. dollar during the six months ended June 30, 2016 compared to the six months ended June 30, 2015.

***Cost of Revenues.***

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| | 2016 | 2015 | Change | Percentage change |
| | (dollars in millions) | | | |
| Revenues, net | $ 337.5 | $ 299.1 | $ 38.4 | 12.8% |
| Cost of revenues | 220.4 | 193.6 | 26.8 | 13.8% |
| Gross profit | $ 117.1 | $ 105.5 | $ 11.6 | 11.0% |
| As a percentage of revenues | 34.7% | 35.3% | | |

The increase in cost of revenues was primarily due to an increase in employee-related costs of $21.8 million (including $1.3 million of incremental employee-related costs related to our RPM acquisition). The remaining increase of $20.5 million in employee-related cost was primarily due to annual wage increases and an increase in our average headcount of personnel directly involved in providing services to our clients. We also experienced an increase in facilities, technology and other operating expenses of $11.3 million (including incremental cost of revenues of $6.5 million related to our RPM acquisition) and in reimbursable expenses of $1.7 million, resulting in a corresponding increase in revenues. These increases were partially offset by a decrease of $8.0 million due to the impact of depreciation of the Indian rupee, the U.K pound sterling and the Philippine peso against the U.S. dollar during the six months ended June 30, 2016 compared to the six months ended June 30, 2015.

***Gross Profit.*** Gross profit increased by $11.6 million, or 11.0%, from $105.5 million for the six months ended June 30, 2015 to $117.1 million for the six months ended June 30, 2016. The increase was primarily due to higher revenues in our Analytics services and depreciation of the Indian rupee, the Philippine peso and the U.K. pound sterling against the U.S. dollar.

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

| | Six months ended June 30, 2016 | Six months ended June 30, 2015 | Change | Percentage change |
|---|---|---|---|---|
| | (dollars in millions) | | | |
| General and administrative expenses | $ 41.8 | $ 38.6 | $ 3.2 | 8.3% |
| Selling and marketing expenses | 26.3 | 23.1 | 3.2 | 13.9% |
| Selling, general and administrative expenses | $ 68.1 | $ 61.7 | $ 6.4 | 10.3% |
| As a percentage of revenues | 20.2% | 20.6% | | |

The increase in SG&A expenses was primarily due to an increase in employee-related costs of $7.2 million (including $2.1 million of incremental employee-related costs related to our RPM acquisition). The remaining increase of $5.1 million in employee-related cost was primarily due to annual wage increments and an increase in our average headcount to support increased business volume. We also experienced an increase in our other SG&A expenses of $0.7 million (including $0.2 million related to our RPM acquisition) primarily due to an increase in our facilities costs in connection with our new operations centers in India and the Philippines and other travel and marketing related costs. This increase was partially offset by a decrease of $1.5 million due to the impact of depreciation of the Indian rupee, the U.K. pound sterling and the Philippine peso against the U.S. dollar during the six months ended June 30, 2016 compared to the six months ended June 30, 2015.

***Depreciation and Amortization.***

| | Six months ended June 30, 2016 | Six months ended June 30, 2015 | Change | Percentage change |
|---|---|---|---|---|
| | (dollars in millions) | | | |
| Depreciation expense | $ 11.0 | $ 10.2 | $ 0.8 | 7.8% |
| Intangible amortization expense | 5.4 | 4.9 | 0.5 | 10.2% |
| Depreciation and amortization expense | $ 16.4 | $ 15.1 | $ 1.3 | 8.5% |
| As a percentage of revenues | 4.9% | 5.1% | | |

Depreciation and amortization expense increased by $1.3 million, or 8.5%, from $15.1 million for the six months ended June 30, 2015 to $16.4 million for the six months ended June 30, 2016. The increase in amortization of intangibles of $0.5 million was primarily due to amortization of intangibles associated with our RPM acquisition. Further, there was an increase in our depreciation expense of $1.3 million due to depreciation related to our new capital investments in India, South Africa and the Philippines to support the business growth. These increases were partially offset by a decrease of $0.5 million due to depreciation of the Indian rupee and the Philippine peso against the U.S. dollar during the six months ended June 30, 2016 compared to the six months ended June 30, 2015.

***Income from Operations.*** Income from operations increased $4.0 million, or 13.8%, from $28.7 million for the six months ended June 30, 2015 to $32.7 million for the six months ended June 30, 2016. As a percentage of revenues, income from operations increased from 9.6% for the six months ended June 30, 2015 to 9.7% for the six months ended June 30, 2016.

***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 six months ended June 30, 2016. The average exchange rate of the Indian rupee against the U.S. dollar increased from 62.83 during the six months ended June 30, 2015 to 67.29 during the six months ended June 30, 2016. The average exchange rate of the U.K. pound sterling against the U.S. dollar increased from 0.65 during the six months ended June 30, 2015 to 0.70 during the six months ended June 30, 2016. The average exchange rate of the Philippine peso against the U.S. dollar increased from 44.51 during the six months ended June 30, 2015 to 47.00 during the six months ended June 30, 2016.

We recorded a net foreign exchange gain of $1.8 million for the six months ended June 30, 2016 compared to $2.2 million for the six months ended June 30, 2015.

***Interest and Other Income, net***

| | Six months ended June 30, 2016 | Six months ended June 30, 2015 | Change | Percentage change |
|---|---|---|---|---|
| | (dollars in millions) | | | |
| Interest and dividend income | $ 4.5 | $ 2.9 | $ 1.6 | 55.2% |
| Interest expense | (0.7) | (0.6) | (0.1) | 16.7% |
| Change in fair value of earn-out consideration | 4.1 | — | 4.1 | 100.0% |
| Other, net | 0.7 | 0.2 | 0.5 | 250.0% |
| Other income, net | $ 8.6 | $ 2.5 | $ 6.1 | 241.4% |

Increase in interest and dividend income was primarily due to higher cash balances in our foreign subsidiaries and higher yield on our investments during the six months ended June 30, 2016 compared to the six months ended June 30, 2015. Other income further increased by $0.7 million due to interest on deposits received from income tax authorities in India on completion of a tax assessment and by $4.1 million due to reversal of earn-out liability related to our RPM acquisition. This increase in interest and other income was partially offset by an increase in interest expense of $0.1 million related to the Credit Facility and the amortization of related deferred financing cost.

***Income Tax Expense.*** The effective tax rate decreased from 35.2% during the six months ended June 30, 2015 to 29.9% during the six months ended June 30, 2016. The decrease was the result of a (i) higher income tax expense during the six months ended June 30, 2015 due to certain adjustments (resulting in an increase in income tax expense of $1.8 million) and (ii) increase in earnings in the locations with lower tax rates as well as tax incentives. The decrease in effective tax rate was partially offset by the reversal of earn-out liability of $4.1 million in other income during six months ended June 30, 2016, related to our RPM acquisition.

***Net Income.*** Net income increased from $21.6 million for the six months ended June 30, 2015 to $30.2 million for the six months ended June 30, 2016, primarily due to higher income from operations of $4.0 million and an increase in other income and foreign exchange gain of $5.7 million, partially offset by a higher income tax expense of $1.2 million. As a percentage of revenues, net income increased from 7.2% for the six months ended June 30, 2015 to 8.9% for the six months ended June 30, 2016.

**Liquidity and Capital Resources**

| | Six months ended June 30, 2016 | Six months ended June 30, 2015 |
|---|---|---|
| | (dollars in millions) | |
| Opening cash and cash equivalents | $ 205.3 | $ 176.5 |
| Net cash provided by operating activities | 26.9 | 27.2 |
| Net cash used for investing activities | (106.0) | (124.5) |
| Net cash (used for) / provided by financing activities | (30.7) | 16.8 |
| Effect of exchange rate changes | (2.4) | (1.3) |
| Closing cash and cash equivalents | $ 93.1 | $ 94.7 |

As of June 30, 2016 and December 31, 2015, we had $200.7 million and $219.0 million, respectively in cash, cash equivalents and short-term investments (including $147.3 million and $136.0 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 decreased by $0.3 million from $27.2 million for the six months ended June 30, 2015 to $26.9 million for the six months ended June 30, 2016. Generally, factors that affect our earnings—including pricing, volume of services, costs and productivity—affect our cash flows provided from operations in a similar manner. However, while management of working capital, including timing of collections and payments affects operating results only indirectly, the impact on the working capital and cash flows provided by operating activities can be significant.

The decrease in cash flows from operations for the six months ended June 30, 2016 compared to the six months ended June 30, 2015 was due to an increase in working capital of $26.4 million during the six months ended June 30, 2016 compared to an increase of $18.3 million during the six months ended June 30, 2015. The increase in working capital was primarily due to an increase in accounts receivables, advance income tax (net of income tax provision) and a decrease in accrued employee costs, partially offset by a increase in deferred revenues and the accrued expenses and other current liabilities. This decrease in cash flows from operations was partially offset by an increase in net income adjusted for non-cash expenses of $7.8 million, primarily due to an increase in net income by $8.6 million.

*Investing Activities:* Cash flows used for investing activities decreased by $18.5 million from $124.5 million for the six months ended June 30, 2015 to $106.0 million for the six months ended June 30, 2016. The decrease was primarily due to cash paid for the RPM acquisition (net of cash acquired) of $44.3 million during the six months ended June 30, 2015. This decrease is partially offset by an increase in short-term investments of $25.2 million (net of redemption) during the six months ended June 30, 2016 compared to the six months ended June 30, 2015 and further by a decrease in capital expenditures of $0.5 million.

*Financing Activities:* Cash flows used for financing activities was $30.7 million during the six months ended June 30, 2016 compared to cash flow provided by financing activities of $16.8 million during the six months ended June 30, 2015. The decrease in cash flow from financing activities is primarily due to net borrowings of $20 million under the Credit Agreement (as described below in “Financing Arrangements”) during the six months ended June 30, 2015 compared to repayment of $25.0 million during the six months ended June 30, 2016. Cash flows from financing activities further decreased due to higher purchases of treasury stock of $4.6 million during the six months ended June 30, 2016 compared to the six months ended June 30, 2015.

We expect to use cash from operating activities to maintain and expand our business. As we have focused on expanding our cash flow from operating activities we continue to make capital investments, primarily related to new facilities and capital expenditures associated with leasehold improvements to build our facilities and the purchase of telecommunications equipment and computer hardware and software in connection with managing client operations. We incurred $14.9 million of capital expenditures in the six months ended June 30, 2016. We expect to incur capital expenditures of between $25 million to $30 million in 2016, primarily to meet our growth requirements, including additions to our facilities as well as investments in technology applications and infrastructure.

In connection with any tax assessment orders that have been issued or may be issued against us or our subsidiaries, we may be required to deposit additional amounts with respect to such assessment orders (refer to Note 16 to our unaudited consolidated financial statements for further details). We anticipate that we will continue to rely upon cash from operating activities to finance our smaller acquisitions, capital expenditures and working capital needs. If we have significant growth through acquisitions, we may need to obtain additional financing.

### *Financing Arrangements (Debt Facility)*

On October 24, 2014 we entered into a Credit Agreement that, as amended, provides for a $100 million revolving credit facility, including a letter of credit sub-facility (as amended, the “Credit Facility”). As of June 30, 2016, we had outstanding indebtedness of $45.0 million. Borrowings under the Credit Agreement mature on October 24, 2019 and 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 0.25% to 0.75% per annum with respect to loans pegged to the specified prime rate, and 1.25% to 1.75% 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 0.20% to 0.30% per annum on the average daily amount by which the aggregate revolving commitments exceed the sum of outstanding revolving loans and letter of credit obligations. The credit facility carried an effective interest rate of 1.95% and 1.56% per annum, respectively during the three months ended June 30, 2016 and June 30, 2015.

### Off-Balance Sheet Arrangements

As of June 30, 2016 and December 31, 2015, we had no off-balance sheet arrangements or obligations.

**Contractual Obligations**

The following table sets forth our contractual obligations as of June 30, 2016:

| | Payment Due by Period | | | | |
|---|---|---|---|---|---|
| | Less than 1 year | 1-3 years | 4-5 years | After 5 years | Total |
| | (dollars in millions) | | | | |
| Capital leases | $ 0.3 | $ 0.2 | $ — | $ — | $ 0.5 |
| Operating leases | 9.1 | 13.9 | 5.0 | 1.7 | 29.7 |
| Purchase obligations | 4.1 | — | — | — | 4.1 |
| Other obligations[a] | 2.1 | 2.9 | 1.7 | 2.0 | 8.7 |
| Borrowings | | | | | |
| Principal payments | 10.0 | — | 35.0 | — | 45.0 |
| Interest Payments[b] | 1.0 | 1.7 | 0.2 | — | 2.9 |
| Total contractual cash obligations[c] | $ 26.6 | $ 18.7 | $ 41.9 | $ 3.7 | $ 90.9 |

*(a) Represents estimated payments under the Gratuity Plan.*
*(b) Interest on borrowings is calculated based on the interest rate on the outstanding borrowings as of June 30, 2016.*
*(c) Excludes $2.8 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 our unaudited consolidated financial statements contained herein.

## ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

During the six months ended June 30, 2016, there were no material changes in our market risk exposure other than as disclosed herein. For more detailed discussion of our market risk associated with exchange rate risk and interest rate risk, see Item 7A "Quantitative and Qualitative Disclosures about Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2015.

***Foreign Currency Risk.*** During June 2016, the U.K. held a referendum in which British citizens approved an exit from the European Union ("EU"), commonly referred to as "Brexit." As a result of the referendum, the global markets and currencies have been adversely impacted, including as a result of a decline in the value of the U.K. pound sterling as compared to the U.S. dollar. Volatility in exchange rates is expected to continue in the short term as the U.K. negotiates its exit from the EU. Although it is unknown what the result of those negotiations will be, it is possible that new terms may adversely affect our financial results, operations and cash flows.

Our exchange rate risk primarily arises from our foreign currency revenues, expenses incurred by our foreign subsidiaries and foreign currency accounts receivables and payable. We serve clients in the U.K. with this region generating approximately 16.7% and 17.8% of our total revenues for the six months ended June 30, 2016 and 2015, respectively. We also incurred expenses in the U.K. pound sterling in our certain foreign subsidiaries during the six months ended June 30, 2016, which will have a positive impact due to the depreciation of GBP against the USD. A significant portion of our revenues from customer contracts denominated in the U.K. pound sterling includes protection against foreign exchange rate fluctuations which minimizes the impact of the volatility in the exchange rates on our operating results.

## ITEM 4. Controls and Procedures

### *Evaluation of Disclosure Controls and Procedures*

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file under the Securities Exchange Act of 1934, as amended (the "Exchange Act,") is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to allow timely decisions regarding required financial disclosure. In connection with the preparation of this Quarterly Report on Form 10-Q, our management carried out an evaluation, under the supervision and with the participation of the CEO and CFO, of the effectiveness and operation of our disclosure controls and procedures as of June 30, 2016. Based upon that evaluation, the CEO and CFO have concluded that, as of June 30, 2016, our disclosure controls and procedures were effective.

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

During the three months ended June 30, 2016, 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 16 to our unaudited consolidated financial statements contained herein for details regarding our tax proceedings.

## ITEM 1A. Risk Factors

We have disclosed under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 a number of risks which may materially affect our business, financial condition or results of operations. You should carefully consider the "Risk Factors" set forth in our Annual Report on Form 10-K for the year ended December 31, 2015 and the other information set forth elsewhere in this Quarterly Report on Form 10-Q. You should be aware that these risk factors and other information may not describe every risk facing our Company. Additional risks and uncertainties not currently known to us may also materially adversely affect our business, financial condition and/or results of operations.

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

***Unregistered Sales of Equity Securities***

None.

***Use of Proceeds***

None.

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

During the three months ended June 30, 2016, 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[1] | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| April 1, 2016 through April 30, 2016[2] | 14,310 | $ 48.99 | 12,831 | $ 13,172,622 |
| May 1, 2016 through May 31, 2016 | 23,510 | 48.66 | 23,510 | 12,028,610 |
| June 1, 2016 through June 30, 2016 | 19,831 | 50.65 | 19,831 | 11,024,145 |
| Total | 57,651 | $ 49.43 | 56,172 | $ — |

(1) Consists of shares purchased under the 2014 Repurchase Program. See Note 9 to our unaudited consolidated financial statements for further information.

(2) Includes 1,479 shares of the Company's common stock acquired in connection with the satisfaction of tax withholding obligations on vested restricted stock acquired at the average of the high and low price of common stock on the trading day prior to the vesting date of the shares of restricted stock (average price paid per share was $51.39).

**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: July 28, 2016

**EXLSERVICE HOLDINGS, INC.**

By: /S/ VISHAL CHHIBBAR

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

## EXHIBITS

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

| | |
|---|---|
| 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 |

**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: July 28, 2016

/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: July 28, 2016 | /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 June 30, 2016 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

July 28, 2016

**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 June 30, 2016 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

July 28, 2016