ExlService Holdings, Inc.
Form 10-Q
July 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015

OR

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

COMMISSION FILE NUMBER 001-33089

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 x 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 x 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 x	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 x

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

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EXLSERVICE HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 94,651	$ 176,499
Short-term investments	77,880	11,577
Restricted cash	2,466	1,395
Accounts receivable, net	94,216	80,244
Prepaid expenses	7,738	5,783
Deferred tax assets, net	4,649	4,455
Advance income tax, net	6,321	9,905
Other current assets	13,687	12,533
Total current assets	301,608	302,391
Fixed assets, net	48,152	45,369
Restricted cash	3,342	3,258
Deferred tax assets, net	8,039	11,985
Intangible assets, net	58,960	46,979
Goodwill	170,129	139,599
Other assets	23,488	23,975
Total assets	$ 613,718	$ 573,556
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 5,832	$ 4,663
Short-term borrowings	10,000	
Deferred revenue	11,994	7,690
Accrued employee cost	28,834	37,606
Accrued expenses and other current liabilities	37,571	40,206
Current portion of capital lease obligations	661	803
Total current liabilities	94,892	90,968

Long term borrowings	60,000	50,000
Capital lease obligations, less current portion	323	560
Non-current liabilities	14,041	12,870
Total liabilities	169,256	154,398
Commitments and contingencies (See Note 16)		
Preferred stock, $0.001 par value; 15,000,000 shares authorized, none issued		
Stockholders equity:		
Common stock, $0.001 par value; 100,000,000 shares authorized, 34,658,876 shares issued and 33,213,549 shares outstanding as of June 30, 2015 and 34,203,352 shares issued and 32,905,467 shares outstanding as of December 31, 2014	35	34
Additional paid-in-capital	243,348	233,173
Retained earnings	291,065	269,424
Accumulated other comprehensive loss	(56,917)	(55,509)
Total stockholders equity including shares held in treasury	477,531	447,122
Less: 1,445,327 shares as of June 30, 2015 and 1,297,885 shares as of December 31, 2014, held in treasury, at cost	(33,069)	(27,964)
Total stockholders equity	444,462	419,158
Total liabilities and stockholders equity	$ 613,718	$ 573,556

See accompanying notes

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EXLSERVICE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except share and per share amounts)

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

See accompanying notes.

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EXLSERVICE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

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

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

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

See accompanying notes.

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EXLSERVICE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(In thousands)

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

Proceeds from exercise of stock options	2,366	2,813
Net cash provided by financing activities	16,829	1,790
Effect of exchange rate changes on cash and cash equivalents	(1,332)	1,374
Net (decrease) / increase in cash and cash equivalents	(81,848)	12,872
Cash and cash equivalents, beginning of period	176,499	148,065
Cash and cash equivalents, end of period	$ 94,651	$ 160,937

See accompanying notes.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

(Unaudited)

(In thousands, except share and per share amounts)

1. Organization and Basis of Presentation

Organization

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

Basis of Presentation

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

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

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

Revenue Recognition

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

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EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

(Unaudited)

(In thousands, except share and per share amounts)

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

Investments

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

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

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

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

Non-current liabilities

Non-current liabilities consist of the following:

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

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EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

(Unaudited)

(In thousands, except share and per share amounts)

Interest and other income

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

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

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

Recent Accounting Pronouncements

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

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

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

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

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EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

(Unaudited)

(In thousands, except share and per share amounts)

3. Earnings Per Share

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

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

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

4. Segment Information

The Company s business is divided into two reporting segments: Operations Management (previously called Outsourcing Services) and Analytics and Business Transformation (previously called Transformation Services). The

Company changed its reporting segment nomenclature in 2014 in order to more accurately reflect the changing nature of its engagements with the clients. For comparability with the prior periods, the business composition of each segment remains unchanged.

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

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EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

(Unaudited)

(In thousands, except share and per share amounts)

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

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

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

	Six months ended June 30, 2015			Six months ended June 30, 2014		
	Operations Management	Analytics and Business Transformation	Total	Operations Management	Analytics and Business Transformation	Total
Revenues, net	$ 223,267	$ 75,864	$ 299,131	$ 194,405	$ 47,130	$ 241,535
Cost of revenues (exclusive of depreciation and amortization)	142,001	51,602	193,603	121,393	34,788	156,181

Gross profit	$ 81,266	$ 24,262	$ 105,528	$ 73,012	$ 12,342	$ 85,354
Operating expenses			76,812			63,770
Other income			4,669			847
Income tax expense			11,744			3,521
Net income			$ 21,641			$ 18,910

5. Business Combinations, Goodwill and Intangible Assets

RPM Direct LLC and RPM Data Solutions, LLC

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

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

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

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EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

(Unaudited)

(In thousands, except share and per share amounts)

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

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

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

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

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

Under ASC topic 805, Business Combinations, the preliminary allocation of the purchase price to the tangible and intangible assets and liabilities acquired may change up to a period of one year from the date of the acquisition. The

Company s purchase accounting as of June 30, 2015 was incomplete and the Company expects to complete its valuation of the tangible assets, intangible assets and liabilities assumed as of the acquisition date during the third quarter. Accordingly, the Company may adjust the amounts recorded as of June 30, 2015 to reflect the final valuations of the assets acquired or liabilities assumed.

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

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

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EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

(Unaudited)

(In thousands, except share and per share amounts)

Goodwill

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

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

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

Intangible Assets

Information regarding the Company s intangible assets is as follows:

As of June 30, 2015

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

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

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

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

6. Fair Value Measurements

Assets and Liabilities Measured at Fair Value

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

As of June 30, 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Money market and mutual funds*	$ 107,260	$	$	$ 107,260
Derivative financial instruments		4,974		4,974
Total	$ 107,260	$ 4,974	$	$ 112,234
Liabilities				
Derivative financial instruments	$	$ 2,065	$	$ 2,065
Fair value of earn-out consideration			2,844	2,844
Total	$	$ 2,065	$ 2,844	$ 4,909

As of December 31, 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				

Money market and mutual funds	$ 127,347	$	$	$ 127,347
Derivative financial instruments		4,579		4,579
Total	$ 127,347	$ 4,579	$	$ 131,926
Liabilities				
Derivative financial instruments	$	$ 2,961	$	$ 2,961
Total	$	$ 2,961	$	$ 2,961

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

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

7. Derivatives and Hedge Accounting

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

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

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

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

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

Derivatives designated as hedging instruments

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

Derivatives not designated as hedging instruments:

	June 30, 2015	December 31, 2014
Other current assets:		
Foreign currency exchange contracts	$ 124	$ 143
Accrued expenses and other current liabilities:		
Foreign currency exchange contracts	$ 9	$

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(In thousands, except share and per share amounts)

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

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/(Recognized in Income on Deriva (Ineffective Portio Amount Exclud from Effectiveness Tes	
	2015	2014		2015	2014		2015	2014
Foreign exchange contracts	$ (1,474)	$ 2,542	Foreign exchange loss	$ (224)	$ (2,205)	Foreign exchange loss	$	$

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

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

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	Amount of Gain/(L Recognized in Income on Derivat (Ineffective Portion Amount Exclude from

						Excluded from Effectiveness Testing)	Effectiveness Testi	
	2015	2014		2015	2014		2015	2014
Foreign exchange contracts	$ 785	$ 9,552	Foreign exchange loss	$ (533)	$ (4,458)	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 2015	2014
Foreign exchange contracts	Foreign exchange loss	$ 799	$ 3,451

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EXLSERVICE HOLDINGS, INC.

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(In thousands, except share and per share amounts)

8. Fixed Assets

Fixed assets consist of the following:

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

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

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

9. Capital Structure

The Company has one class of common stock outstanding.

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

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

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

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

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

10. Borrowings

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

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

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

11. Employee Benefit Plans

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

Net gratuity cost includes the following components:

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

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

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

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

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

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

12. Leases

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

Year ending June 30,	
2016	$ 731
2017	246
2018	85
2019	27
Total minimum lease payments	1,089
Less: amount representing interest	105
Present value of minimum lease payments	984
Less: current portion	661

Long term capital lease obligation	$ 323

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

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

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

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13. Income Taxes

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

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

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

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

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

Balance as of January 1, 2015	$ 2,761
Increases related to prior year tax positions	1,239

Decreases related to prior year tax positions	
Increases related to current year tax positions	
Decreases related to current year tax positions	
Effect of exchange rate changes	(17)
Balance as of June 30, 2015	$ 3,983

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

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

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

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EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2015

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(In thousands, except share and per share amounts)

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,	
	2015	2014	2015	2014
Cost of revenue	$ 551	$ 447	$ 1,654	$ 1,460
General and administrative expenses	1,386	787	2,869	2,301
Selling and marketing expenses	1,616	733	3,286	2,381
Total	$ 3,553	$ 1,967	$ 7,809	$ 6,142

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

Stock Options

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

	Number of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Life (Years)
Outstanding at December 31, 2014	1,433,179	$ 16.23	$ 17,889	4.47
Granted				
Exercised	(151,684)	15.60		
Forfeited/Expired	(6,058)	24.77		

Outstanding at June 30, 2015	1,275,437	$ 16.26	$ 23,363	3.96
Vested and exercisable at June 30, 2015	1,193,574	$ 15.68	$ 22,561	3.78

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

Restricted Stock and Restricted Stock Units

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

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

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

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

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(In thousands, except share and per share amounts)

Performance Based Stock Awards

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

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

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

15. Geographical Information

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

	June 30, 2015	December 31, 2014

Fixed assets, net		
India	$ 26,028	$ 24,186
United States	9,296	8,293
Philippines	12,319	12,391
Rest of World	509	499
	$ 48,152	$ 45,369

16. Commitments and Contingencies

Fixed Asset Commitments

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

Other Commitments

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

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

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Contingencies

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

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

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

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

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

Forward Looking Statements

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

- our dependence on a limited number of clients in a limited number of industries;
- worldwide political, economic or business conditions;
- negative public reaction in the U.S. or elsewhere to offshore outsourcing;
- fluctuations in our earnings;
- our ability to attract and retain clients;
- our ability to successfully consummate or integrate strategic acquisitions;
- restrictions on immigration;
- our ability to hire and retain enough sufficiently trained employees to support our operations;

- our ability to grow our business or effectively manage growth and international operations;
- increasing competition in our industry;
- telecommunications or technology disruptions;
- our ability to withstand the loss of any significant customer
- regulatory, legislative and judicial developments, including changes to or the withdrawal of governmental fiscal incentives;
- technological innovation;
- political or economic instability in the geographies in which we operate;
- unauthorized disclosure of sensitive or confidential client and customer data; and
- adverse outcome of our disputes with the Indian tax authorities.

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

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

Executive Overview

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

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

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

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

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

Revenue

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

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

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

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

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

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

Our Business

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

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

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

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

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

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

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

Analytics and Business Transformation: Our Analytics and Business Transformation solutions include our Analytics, Operations Consulting, and Finance Transformation services. These services focus on improving our clients operating environments, whether or not they are managed by us, through cost reduction, additional insight for business forecasting, enhanced efficiency and productivity, improved effectiveness of business decisions and creation of an improved risk and control environment. We actively cross-sell and, where appropriate, integrate our Analytics and Business Transformation solutions with Operations Management as part of a comprehensive solution for our clients. Our Analytics solutions involve accessing and analyzing large volumes of data from multiple data sources to generate insights about past business performance or predict future business outcomes. In order to provide services, we leverage a large pool of analytics professionals and data scientists who deploy our proprietary analytics tools and methodologies to help clients better utilize their data to generate actionable business insights. These insights generated by our analytics tools, statistical models and data scientists assist clients in making quicker, more accurate and data-driven business decisions, which we believe leads to better business outcomes and tangible financial benefits.

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

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

Critical Accounting Policies and Estimates

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

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Results of Operations

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

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

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Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014

Revenues.

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

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

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

Cost of Revenues.

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

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

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

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

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

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

Depreciation and Amortization.

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

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

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

Foreign Exchange Gain / (Loss)

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

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Interest and other income

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

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

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

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

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Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

Revenues.

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

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

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

Cost of Revenues.

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

The increase in cost of revenues was primarily due to an increase in employee-related costs of $31.3 million (including $26.5 million of employee-related costs related to our recent acquisitions). The increase of $4.8 million in employee-related cost is due to annual wage increases of personnel directly involved in providing services to our clients. We also experienced an increase in facilities, technology and other operating expenses of $10.3 million (including $9.3 million due to our recent acquisitions) in connection with our new operations centers in India and the Philippines and to support business growth. This increase is partially offset by a decrease in reimbursable expenses of

$0.3 million, resulting in a corresponding decrease in revenues, and by $3.9 million due to the impact of depreciation of the Indian rupee, the U.K pound sterling and the Philippine peso against the U.S. dollar during the six months ended June 30, 2015 compared to the six months ended June 30, 2014.

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

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

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

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

Depreciation and Amortization.

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

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

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

Foreign Exchange Gain /(Loss)

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

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Interest and other income

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

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

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

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

Liquidity and Capital Resources

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

Closing cash and cash equivalents	$	94.7	$	160.9

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

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

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

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

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

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

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

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

Financing Arrangements (Debt Facility)

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

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

Off-Balance Sheet Arrangements

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

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Contractual Obligations

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

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

(a) Represents estimated payments under the Gratuity Plan.
(b) Interest on borrowings is calculated based on the effective interest rate during the six months ended June 30, 2015.
(c) Excludes $4.0 million related to uncertain tax positions, since the extent of the amount and timing of payment is currently not reliably estimable or determinable.

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

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

Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

None.

Purchases of Equity Securities by the Issuer

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

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

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

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

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

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

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SIGNATURES

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

EXLSERVICE HOLDINGS, INC.

Date: July 30, 2015

By: /s/ VISHAL CHHIBBAR
Vishal Chhibbar
Executive Vice President and

Chief Financial Officer

(Duly Authorized Signatory, Principal

Financial and Accounting Officer)

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