ExlService Holdings, Inc.
Form 10-Q
August 02, 2018

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018
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 ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | ý | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | Smaller reporting company | ¨ |
| Emerging growth company | ¨ | | |

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

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

As of July 31, 2018, there were 34,312,699 shares of the registrant’s common stock outstanding, par value $0.001 per share.

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PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
EXLSERVICE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

| | As of June 30, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $84,091 | $86,795 |
| Short-term investments | 149,045 | 178,479 |
| Restricted cash | 2,256 | 3,674 |
| Accounts receivable, net | 147,099 | 135,705 |
| Prepaid expenses | 9,963 | 9,781 |
| Advance income tax, net | 11,278 | 8,801 |
| Other current assets | 23,002 | 29,582 |
| Total current assets | 426,734 | 452,817 |
| Property and equipment, net | 66,112 | 66,757 |
| Restricted cash | 3,645 | 3,808 |
| Deferred taxes, net | 12,702 | 8,585 |
| Intangible assets, net | 41,170 | 48,958 |
| Goodwill | 200,981 | 204,481 |
| Other assets | 36,033 | 36,369 |
| Investment in equity affiliate | 2,886 | 3,000 |
| Total assets | $790,263 | $824,775 |
| Liabilities and equity | | |
| Current liabilities: | | |
| Accounts payable | $5,428 | $5,918 |
| Current portion of long-term borrowings | 10,318 | 10,318 |
| Deferred revenue | 10,448 | 10,716 |
| Accrued employee costs | 33,338 | 55,664 |
| Accrued expenses and other current liabilities | 59,882 | 61,366 |
| Current portion of capital lease obligations | 223 | 267 |
| Total current liabilities | 119,637 | 144,249 |
| Long term borrowings | 57,326 | 50,391 |
| Capital lease obligations, less current portion | 270 | 331 |
| Income taxes payable | 8,721 | 13,557 |
| Other non-current liabilities | 18,830 | 16,202 |
| Total liabilities | 204,784 | 224,730 |
| Commitments and contingencies (Refer to Note 25) | | |
| Preferred stock, $0.001 par value; 15,000,000 shares authorized, none issued | — | — |
| ExlService Holdings, Inc. Stockholders' equity: | | |
| Common stock, $0.001 par value; 100,000,000 shares authorized, 37,583,160 shares issued and 34,288,314 shares outstanding as of June 30, 2018 and 36,790,751 shares issued and 33,888,733 shares outstanding as of December 31, 2017 | 38 | 37 |
| Additional paid-in capital | 334,643 | 322,246 |

| | | |
|---|---|---|
| Retained earnings | 465,138 | 427,064 |
| Accumulated other comprehensive loss | (87,621 ) | (45,710 ) |
| Total including shares held in treasury | 712,198 | 703,637 |
| Less: 3,294,846 shares as of June 30, 2018 and 2,902,018 shares as of December 31, 2017, held in treasury, at cost | (126,952 ) | (103,816 ) |
| Stockholders’ equity | $585,246 | $599,821 |
| Non-controlling interest | 233 | 224 |
| Total equity | $585,479 | $600,045 |
| Total liabilities and equity | $790,263 | $824,775 |

See accompanying notes to unaudited consolidated financial statements.

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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, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues, net | $210,112 | $189,057 | $417,085 | $372,090 |
| Cost of revenues[1] | 139,649 | 123,734 | 277,750 | 242,806 |
| Gross profit[1] | 70,463 | 65,323 | 139,335 | 129,284 |
| Operating expenses: | | | | |
| General and administrative expenses | 27,640 | 24,425 | 56,906 | 48,462 |
| Selling and marketing expenses | 15,151 | 13,095 | 29,103 | 26,435 |
| Depreciation and amortization | 10,582 | 9,535 | 21,086 | 18,907 |
| Total operating expenses | 53,373 | 47,055 | 107,095 | 93,804 |
| Income from operations | 17,090 | 18,268 | 32,240 | 35,480 |
| Foreign exchange gain, net | 1,414 | 886 | 2,029 | 1,268 |
| Interest expense | (706) | (465) | (1,244) | (897) |
| Other income, net | 2,232 | 2,512 | 5,766 | 5,698 |
| Income before income tax expense | 20,030 | 21,201 | 38,791 | 41,549 |
| Income tax expense | 5,510 | 823 | 1,057 | 4,383 |
| Loss from equity-method investment | 58 | — | 114 | — |
| Net income attributable to ExlService Holdings, Inc. stockholders | $14,462 | $20,378 | $37,620 | $37,166 |
| Earnings per share attributable to ExlService Holdings, Inc. stockholders: | | | | |
| Basic | $0.42 | $0.60 | $1.09 | $1.10 |
| Diluted | $0.41 | $0.58 | $1.07 | $1.06 |
| Weighted-average number of shares used in computing earnings per share attributable to ExlService Holdings, Inc. stockholders: | | | | |
| Basic | 34,511,777 | 33,819,320 | 34,479,202 | 33,833,153 |
| Diluted | 35,142,388 | 34,993,226 | 35,222,838 | 35,051,767 |

(1) Exclusive of depreciation and amortization.

See accompanying notes to unaudited consolidated financial statements.

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EXLSERVICE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME (UNAUDITED)
(In thousands)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | $14,462 | $20,378 | $37,620 | $37,166 |
| Other comprehensive (loss)/income: | | | | |
| Unrealized (loss)/gain on effective cash flow hedges, net of taxes ($3,573), $1,536, ($4,373) and $3,580, respectively | (8,656) | 707 | (12,870) | 7,692 |
| Foreign currency translation (loss)/gain | (18,219) | 2,200 | (26,030) | 13,843 |
| Reclassification adjustments | | | | |
| Gain on cash flow hedges, net of taxes ($426), ($607), ($1,202) and ($891), respectively[(1)] | (1,041) | (1,376) | (2,936) | (2,022) |
| Retirement benefits, net of taxes ($3), $40, ($2) and $47, respectively[(2)] | (35) | 31 | (75) | 93 |
| Total other comprehensive (loss)/income | $(27,951) | $1,562 | $(41,911) | $19,606 |
| Total comprehensive (loss)/income | $(13,489) | $21,940 | $(4,291) | $56,772 |

(1) These are reclassified to net income and are included either in cost of revenues, or operating expenses, as applicable in the unaudited consolidated statements of income. Refer to Note 17 to the unaudited consolidated financial statements.

(2) These are reclassified to net income and are included in other income, net in the unaudited consolidated statements of income. Refer to Note 20 to the unaudited consolidated financial statements.

See accompanying notes to unaudited consolidated financial statements.

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EXLSERVICE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)
(In thousands, except share and per share amounts)

| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) | Treasury Stock | | Non - Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | Shares | Amount | | |
| Balance as of December 31, 2017 | 36,790,751 | $ 37 | $ 322,246 | $ 427,064 | $ (45,710 ) | (2,902,018 ) | $ (103,816 ) | $ 224 | $ 600,045 |
| Impact of adoption of Topic 606 | — | — | — | 454 | — | — | — | — | 454 |
| Balance as of January 1, 2018 | 36,790,751 | 37 | 322,246 | 427,518 | (45,710 ) | (2,902,018 ) | (103,816 ) | 224 | 600,499 |
| Stock issued on exercise/vesting of equity awards | 792,409 | 1 | 430 | — | — | — | — | — | 431 |
| Stock-based compensation | — | — | 11,967 | — | — | — | — | — | 11,967 |
| Acquisition of treasury stock | — | — | — | — | — | (392,828 ) | (23,136 ) | — | (23,136 ) |
| Non-controlling interest | — | — | — | — | — | — | — | 9 | 9 |
| Other comprehensive loss | — | — | — | — | (41,911 ) | — | — | — | (41,911 ) |
| Net income | — | — | — | 37,620 | — | — | — | — | 37,620 |
| Balance as of June 30, 2018 | 37,583,160 | $ 38 | $ 334,643 | $ 465,138 | $ (87,621 ) | (3,294,846 ) | $ (126,952 ) | $ 233 | $ 585,479 |

| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) | Treasury Stock | | Non - Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | Shares | Amount | | |
| Balance as of December 31, 2016 | 35,699,819 | $ 36 | $ 284,646 | $ 382,722 | $ (75,057 ) | (2,071,710 ) | $ (60,362 ) | $ 193 | $ 532,178 |
| Impact of adoption of ASU 2016-09 | — | — | 5,999 | (4,546 ) | — | — | — | — | 1,453 |
| Balance as of January 1, 2017 | 35,699,819 | $ 36 | $ 290,645 | $ 378,176 | $ (75,057 ) | (2,071,710 ) | $ (60,362 ) | $ 193 | $ 533,631 |
| Stock issued on exercise/vesting of equity awards | 552,609 | — | 1,778 | — | — | — | — | — | 1,778 |
| Stock-based compensation | — | — | 11,063 | — | — | — | — | — | 11,063 |
| Acquisition of treasury stock | — | — | — | — | — | (488,987 ) | (23,332 ) | — | (23,332 ) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Non-controlling interest | — | — | — | — | — | — | — | 10 | 10 |
| Other comprehensive income | — | — | — | — | 19,606 | — | — | — | 19,606 |
| Net income | — | — | — | 37,166 | — | — | — | — | 37,166 |
| Balance as of June 30, 2017 | 36,252,428 | $ 36 | $ 303,486 | $ 415,342 | $ (55,451 ) | (2,560,697 ) | $ (83,694 ) | $ 203 | $ 579,922 |

See accompanying notes to unaudited consolidated financial statements.

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EXLSERVICE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

| | Six months ended June 30, 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $37,620 | $37,166 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 21,279 | 19,063 |
| Stock-based compensation expense | 11,967 | 11,063 |
| Unrealized gain on short term investments | (3,940) | (2,246) |
| Unrealized foreign exchange (gain)/loss | (7,782) | 1,643 |
| Deferred income tax expense/(benefit) | 543 | (3,118) |
| Allowances for doubtful accounts receivable | (590) | — |
| Loss from equity-method investment | 114 | — |
| Others, net | 123 | 27 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (11,719) | (9,775) |
| Prepaid expenses and other current assets | (2,430) | 7,161 |
| Accounts payable | (1,343) | 5,295 |
| Deferred revenue | (199) | (2,367) |
| Accrued employee costs | (20,711) | (11,612) |
| Accrued expenses and other liabilities | 2,753 | (6,074) |
| Advance income tax, net | (7,605) | (1,117) |
| Other assets | (4,287) | (36) |
| Net cash provided by operating activities | 13,793 | 45,073 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (19,296) | (20,447) |
| Business acquisition (net of cash acquired) | (495) | — |
| Purchase of investments | (40,663) | (169,422) |
| Proceeds from redemption of investments | 60,811 | 39,475 |
| Net cash provided by/(used for) investing activities | 357 | (150,394) |
| Cash flows from financing activities: | | |
| Principal payments on capital lease obligations | (83) | (94) |
| Proceeds from borrowings | 12,000 | — |
| Repayments of borrowings | (5,065) | — |
| Acquisition of treasury stock | (23,136) | (23,332) |
| Proceeds from exercise of stock options | 431 | 1,778 |
| Net cash used for financing activities | (15,853) | (21,648) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (2,582) | 1,579 |
| Net decrease in cash, cash equivalents, and restricted cash | (4,285) | (125,390) |
| Cash, cash equivalents, and restricted cash at beginning of period | 94,277 | 220,394 |
| Cash, cash equivalents, and restricted cash at end of period | $89,992 | $95,004 |

See accompanying notes to unaudited consolidated financial statements.

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EXLSERVICE HOLDINGS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(In thousands, except share and per share amounts)

1. Organization

ExlService Holdings, Inc. ("ExlService Holdings") is organized as a corporation under the laws of the state of Delaware. ExlService Holdings, together with its subsidiaries and affiliates (collectively, the "Company"), operates in the Business Process Management ("BPM") industry providing operations management services and analytics services that help businesses enhance revenue growth and improve profitability. Using its proprietary platforms, methodologies and tools, the Company looks deeper to help companies improve global operations, enhance data-driven insights, increase customer satisfaction, and manage risk and compliance. The Company's clients are located principally in the United States of America ("U.S.") and the United Kingdom ("U.K")

2. Summary of Significant Accounting Policies

(a) Basis of Preparation and Principles of Consolidation

The unaudited consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles ("US GAAP") for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by US GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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

The accompanying unaudited consolidated financial statements include the financial statements of ExlService Holdings and all of its subsidiaries. The standalone financial statements of subsidiaries are fully consolidated on a line-by-line basis. Intra-group balances and transactions, and income and expenses arising from intra-group transactions, are eliminated while preparing those financial statements. The un-realized gains resulting from intra-group transactions are also eliminated. Similarly, the un-realized losses are eliminated, unless the transaction provides evidence as to impairment of the asset transferred.

Accounting policies of the respective individual subsidiary and associate are aligned, wherever necessary, so as to ensure consistency with the accounting policies that are adopted by the Company under US GAAP.

The Company's investments in equity affiliates are initially recorded at cost and any excess cost over proportionate share of the fair value of the net assets of the investee at the acquisition date is recognized as goodwill. The proportionate share of net income or loss of the investee is recognized in the unaudited consolidated statements of income.

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

(b) Use of Estimates

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

(c) Employee Benefits

Contributions to defined contribution plans are charged to the consolidated statements of income in the period in which services are rendered by the covered employees. Current service costs for defined benefit plans are accrued in the period to which they relate. The liability in respect of defined benefit plans is calculated annually by the Company using the projected unit credit method. Prior service cost, if any, resulting from an amendment to a plan is recognized and amortized over the remaining period of service of the covered employees.

The Company recognizes its liabilities for compensated absences depending on whether the obligation is attributable to employee services already rendered, relates to rights that vest or accumulate and payment is probable and estimable.

Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2017-07, Compensation -Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post Retirement Benefit Cost. Pursuant to this, the Company retrospectively adopted the presentation of service cost separate from other components of net periodic costs for each period presented. The interest cost, expected return on plan assets and amortization of actuarial gains / loss, have been reclassified from “Cost of revenues”, “General and administrative expenses” and “Selling and marketing expenses” to “Other income, net”. Refer to Note 20 to the unaudited consolidated financial statements for details.

(d) Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments purchased with an original maturity of ninety days or less to be cash equivalents. Pursuant to the Company’s investment policy, surplus funds are invested in highly-rated debt mutual funds, money market accounts and time deposits to reduce its exposure to market risk with regard to these funds.

Restricted cash represents amounts on deposit with banks against bank guarantees issued through banks in favor of relevant statutory authorities for equipment imports, deposits for obtaining indirect tax registrations and for demands against pending income tax assessments (refer to Note 25 to the unaudited consolidated financial statements for details). These deposits with banks have maturity dates after June 30, 2019. Restricted cash presented under current assets represents funds held on behalf of clients in dedicated bank accounts.

Effective January 1, 2018, the Company adopted ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash. Pursuant to this adoption, for the purpose of unaudited statements of cash flows, the Company includes in its cash and cash-equivalent balances those amounts that have been classified as restricted cash and restricted cash equivalents for each period presented.

(e) Revenue Recognition

Revenue is recognized when services are provided to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for our services.

Revenue is measured based on consideration specified in a contract with a customer and excludes discounts and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by providing services to a customer.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

Adoption of ASU 2014-09 Topic 606, “Revenue from Contracts with Customers” (Topic 606)

On January 1, 2018, the date of initial application, the Company adopted Topic 606 using the modified retrospective method by recognizing the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of equity, resulting in an increase of $454, primarily due to new contract acquisition costs. The initial application scopes in those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with Company’s historical accounting under Topic 605. The key area impacted upon adoption of Topic 606 relates to the accounting for sales commissions costs. Specifically, under Topic 606 a portion of sales commissions costs have been recorded as an asset and recognized as an operating expense on a straight line basis over the life of the contract. Prior to adoption, the Company was expensing sales commission costs as incurred.

Nature of services

The Company derives its revenues from operations management and analytics services. The Company operates in the business process management (“BPM”) industry providing operations management and analytics services helping businesses enhance revenue growth and improve profitability. The Company provides BPM or “operations management” services, which typically involve transfer to the Company of business operations of a client, after which it administers and manages those operations for its client on an ongoing basis. The Company also provides industry-specific digital transformational services related to operations management services, and analytics services that focus on driving improved business outcomes for clients by generating data-driven insights across all parts of their business.

Arrangements with Multiple Performance Obligations

The Company’s contracts with customers do not generally bundle different services together except for software and related services contracts, which are not significant, involving implementation services and post contract maintenance services. In such software and related services contracts, revenue is allocated to each performance obligation based on the relative standalone selling price.

A separate contract is generally drafted for each type of service sold, even if to the same customer. The typical length of a contract is 3 to 5 years.

Type of Contracts

i. a) Revenues under time-and-material, transaction and outcome-based contracts are recognized as the services are performed. When the terms of the client contract specify service level parameters that must be met (such as turnaround time or accuracy), the Company monitors such service level parameters to determine if any service credits or penalties have been incurred. Revenues are recognized net of any penalties or service credits that are due to a client.

b) In respect of arrangements involving subcontracting, in part or whole of the assigned work, the Company evaluates revenues to be recognized under Accounting Standard Codification ("ASC") topic 606-10-55-36 and 37, “Principal versus agent considerations”.

ii. Revenues for Company’s fixed-price contracts are recognized using the time-elapsed output method because the Company transfers control evenly during execution of its projects. Determining a measure of progress requires management to make judgments that affect the timing of revenue recognized. The Company regularly monitors its estimates for progress on completion of a project and records changes in the period in which a change in an estimate is determined. If a change in an estimate results in a projected loss on a project, such loss is recognized in the period in which it is first identified.

iii. Revenues from the Company's software and related services contracts, which are not significant, are primarily related to maintenance renewals or incremental license fees for additional users. Maintenance revenues are generally recognized on a straight-line basis over the annual contract term. Fees for incremental license fees without any associated services are recognized upon delivery of the related incremental license.

The Company accrues revenues for services rendered between the last billing date and the balance sheet date. Accordingly amounts for services, that the Company has performed and for which an invoice has not yet been issued to the client are presented as a part of contract assets as receivables.

The Company defers the revenues and related cost of revenue during the period while production set-ups are underway and recognize such revenues and costs ratably over the period during which the related services are expected to be performed. The deferred costs are limited to the amounts of the deferred revenues. Deferred revenue also includes the amount for which the services have been rendered but the other conditions of revenue recognition are not met, for example where the Company does not have the persuasive evidence of the arrangements.

Reimbursements of out-of-pocket expenses received from clients are included as part of revenues.

Payment terms

All Contracts entered into by the Company specify the payment terms. Usual payment terms range between 30-60 days. The Company does not have any extended payment terms clauses in existing contracts. At times the Company does enter into fixed price contracts and software licenses involving significant implementation wherein the milestones are defined such that the

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Company can recover the costs with a reasonable margin. The payment terms do not have any linkage to segment or types of contracts, as they are defined for each contract separately.

Variable Consideration

Variability in the transaction price arises primarily due to service level agreements, cost of living adjustments, and pre-payment and volume discounts.

The Company considers its experience with similar transactions and expectations regarding the contract in estimating the amount of variable consideration that should be recognized during a period.

The Company believes that the expected value method is most appropriate for determining the variable consideration since the company has large number of contracts with similar nature of transactions/services.

Allocation of transaction price to performance obligations

The transaction price is allocated to performance obligations on a relative standalone selling price basis. Standalone selling prices are estimated by reference to the total transaction price less the sum of the observable standalone selling prices of other goods or services promised in the contract.  In assessing whether to allocate variable consideration to a specific part of the contract, the Company considers the nature of the variable payment and whether it relates specifically to its efforts to satisfy a specific part of the contract.

Practical expedients and exemptions

We do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

(f) Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, Leases (Topic 842), which requires the identification of arrangements that should be accounted for as leases. In general, lease arrangements exceeding a twelve months term should be recognized as assets with corresponding liabilities on the balance sheet of the lessee. This ASU requires recording a right-of-use asset and lease obligation for all leases, whether operating or finance, while the income statement will reflect lease expense for operating leases and amortization and interest expense for finance leases. The balance sheet amount recorded for existing leases at the date of adoption of this ASU must be calculated using the applicable incremental borrowing rate. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements and the implementation approach to be used.

In June 2016, FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses, which requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is to be deducted from the amortized cost of the financial asset(s) so as to present the net carrying value at the amount expected to be collected on the financial asset. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The amendment should be applied through a modified retrospective approach. Early adoption as of the fiscal years beginning after December 15, 2018 is permitted. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

In June 2018, FASB issued ASU No. 2018-07, Compensation-Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting. This ASU involves several aspects of the accounting for non-employee share-based payment transactions resulting from expanding the scope of Topic 718, Compensation-Stock Compensation, to include share-based payment transactions for acquiring goods and services from non employees. The amendments in this ASU affect all entities that enter into share-based payment transactions for acquiring goods and services from non employees. This ASU is effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year.  Early adoption is permitted, but no earlier than an entity’s adoption date of Topic 606. The adoption of this ASU is not expected to have any material effect on the Company’s consolidated financial statements.

(g) Recently Adopted Accounting Pronouncements

In May 2014, FASB issued ASU No. 2014-09 (Topic 606) "Revenue from Contracts with Customers." Topic 606 supersedes the revenue recognition requirements in Topic 605 “Revenue Recognition” (Topic 605), and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Company adopted Topic 606 as of January 1, 2018 using the modified retrospective transition method. Refer to Note 4 to the unaudited consolidated financial statements for details.

In August 2016, FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. The amendments apply to all entities that are required to present a statement of cash flows under Topic 230. The amendments are an improvement to US GAAP because they provide guidance for each of the eight issues, thereby reducing the current and potential future diversity in practice. The amendments are effective for fiscal years beginning after December 15, 2017 and interim periods within those annual periods and should be applied using a retrospective transition method to each period presented. The Company has adopted the guidance retrospectively to each period presented. The adoption does not have any material effect on the presentation of its unaudited consolidated statements of cash flows.

In November 2016, FASB issued ASU No. 2016-18, Statement of cash flows (Topic 230) - Restricted cash. The amendments apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The amendments in this update require that a statement of cash flows should explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments are effective for fiscal years beginning after December 15, 2017 and interim periods within those annual periods and should be applied using a retrospective transition method to each period presented. Early adoption is permitted with an adjustment reflected as of the beginning of the fiscal year in which the amendment is adopted. The Company has adopted the guidance retrospectively to each period presented. The adoption does not have any material effect on the presentation of its unaudited consolidated statements of cash flows. Refer to Note 6 to the unaudited consolidated financial statements for details.

In January 2017, FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017 and should be applied prospectively. The Company has adopted the guidance effective January 1, 2018. The adoption does not have any material effect on its unaudited consolidated financial statements.

In March, 2017, FASB issued ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost. The ASU amends ASC 715, Compensation — Retirement Benefits, to require employers that present a measure of operating income in their statement of income to include only the service cost component of net periodic pension cost and net periodic post-retirement benefit cost in operating expenses (together with other employee compensation costs). The other components of net benefit cost, including amortization of prior service cost/credit, and settlement and curtailment effects, are to be included in non-operating expenses. The update also stipulates that only the service cost component of net benefit cost is eligible for capitalization. The amendments are effective for fiscal years beginning after December 15, 2017 and interim periods within those annual periods and should be applied using a retrospective transition method to each period presented. The Company has adopted the guidance retrospectively to each period presented. Refer to Note 2(c) and Note 20 to the unaudited consolidated financial statements for details.

In May 2017, FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. Modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the change in terms or conditions. The amendments in this ASU are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. The Company has adopted the guidance effective January 1, 2018. The adoption does not have any material effect on its unaudited consolidated financial statements.

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3. Segment and Geographical Information

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

The Company presents information for the following reportable segments:

- Insurance
- Healthcare
- Travel, Transportation and Logistics ("TT&L")
- Finance and Accounting ("F&A")
- Analytics, and
- All Other (consisting of the Company's remaining operating segments, which are the Banking and Financial Services, Utilities and Consulting operating segments).

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

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

Revenues and cost of revenues for the three months ended June 30, 2018 and 2017, respectively, for each of the reportable segments, are as follows:

| | Three months ended June 30, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Insurance | Healthcare | TT&L | F&A | All Other | Analytics | Total |
| Revenues, net | $64,812 | $ 19,817 | $18,549 | $24,228 | $23,088 | $ 59,618 | $210,112 |
| Cost of revenues[(1)] | 44,033 | 16,713 | 10,625 | 14,543 | 15,079 | 38,656 | 139,649 |
| Gross profit[(1)] | $20,779 | $ 3,104 | $7,924 | $9,685 | $8,009 | $ 20,962 | $70,463 |
| Operating expenses | | | | | | | 53,373 |
| Foreign exchange gain, interest expense and other income, net | | | | | | | 2,940 |

| | |
|---|---|
| Income tax expense | 5,510 |
| Loss from equity-method investment | 58 |
| Net income | $14,462 |

(1) Exclusive of depreciation and amortization.

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| | Three months ended June 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Insurance | Healthcare | TT&L | F&A | All Other | Analytics | Total |
| Revenues, net | $58,255 | $ 18,923 | $17,835 | $21,038 | $21,447 | $ 51,559 | $189,057 |
| Cost of revenues[(1)]* | 40,471 | 12,306 | 10,323 | 12,338 | 14,645 | 33,651 | 123,734 |
| Gross profit[(1)]* | $17,784 | $ 6,617 | $7,512 | $8,700 | $6,802 | $ 17,908 | $65,323 |
| Operating expenses* | | | | | | | 47,055 |
| Foreign exchange gain, interest expense and other income, net* | | | | | | | 2,933 |
| Income tax expense | | | | | | | 823 |
| Net income | | | | | | | $20,378 |

(1) Exclusive of depreciation and amortization.

Revenues and cost of revenues for the six months ended June 30, 2018 and 2017, respectively, for each of the reportable segments, are as follows:

| | Six months ended June 30, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Insurance | Healthcare | TT&L | F&A | All Other | Analytics | Total |
| Revenues, net | $128,715 | $ 42,614 | $36,048 | $48,200 | $44,788 | $116,720 | $417,085 |
| Cost of revenues[(1)] | 86,460 | 33,955 | 21,068 | 29,272 | 30,264 | 76,731 | 277,750 |
| Gross profit[(1)] | $42,255 | $ 8,659 | $14,980 | $18,928 | $14,524 | $39,989 | $139,335 |
| Operating expenses | | | | | | | 107,095 |
| Foreign exchange gain, interest expense and other income, net | | | | | | | 6,551 |
| Income tax expense | | | | | | | 1,057 |
| Loss from equity-method investment | | | | | | | 114 |
| Net income | | | | | | | $37,620 |

(1) Exclusive of depreciation and amortization.

| | Six months ended June 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Insurance | Healthcare | TT&L | F&A | All Other | Analytics | Total |
| Revenues, net | $114,176 | $ 37,855 | $34,878 | $42,052 | $42,563 | $100,566 | $372,090 |
| Cost of revenues[(1)]* | 78,501 | 24,615 | 20,461 | 24,764 | 29,058 | 65,407 | 242,806 |
| Gross profit[(1)]* | $35,675 | $ 13,240 | $14,417 | $17,288 | $13,505 | $35,159 | $129,284 |
| Operating expenses* | | | | | | | 93,804 |
| Foreign exchange gain, interest expense and other income, net* | | | | | | | 6,069 |
| Income tax expense | | | | | | | 4,383 |
| Net income | | | | | | | $37,166 |

(1) Exclusive of depreciation and amortization.

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*The Company early adopted ASU 2017-12, Derivative and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities. Pursuant to this adoption, effective January 1, 2017, the resultant foreign exchange gain/(loss) upon settlement of cash flow hedges are recorded along with the underlying hedged item in the same income statement line as either part of “Cost of revenues”, “General and administrative expenses”, “Selling and marketing expenses”, "Depreciation and Amortization”, as applicable. Refer to Note 17 to the unaudited consolidated financial statements for details.

Revenues, net of the Company by service type, were as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| BPM and related services[1] | $150,494 | $137,498 | $300,365 | $271,524 |
| Analytics services | 59,618 | 51,559 | 116,720 | 100,566 |
| Total | $210,112 | $189,057 | $417,085 | $372,090 |

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

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues, net | | | | |
| United States | $174,087 | $153,894 | $345,285 | $304,175 |
| Non-United States | | | | |
| United Kingdom | 27,480 | 28,951 | 55,496 | 55,033 |
| Rest of World | 8,545 | 6,212 | 16,304 | 12,882 |
| Total Non-United States | 36,025 | 35,163 | 71,800 | 67,915 |
| | $210,112 | $189,057 | $417,085 | $372,090 |

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

| | As of June 30, 2018 | December 31, 2017 |
|---|---|---|
| Property and equipment, net | | |
| India | $35,060 | $ 39,143 |
| United States | 21,182 | 16,371 |
| Philippines | 6,748 | 8,217 |
| Rest of World | 3,122 | 3,026 |
| | $66,112 | $ 66,757 |

4. Revenues, net
Adoption of ASU 2014-09 Topic 606, “Revenue from Contracts with Customers”

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method and applied its guidance to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under Topic 605.The Company recorded a net addition to opening equity of $454 as of January 1, 2018 due to the cumulative impact of adopting Topic 606, primarily due to contract acquisition costs.

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The adoption of Topic 606 did not have a significant impact on the measurement or recognition of revenues during the three and six months ended June 30, 2018.

Refer to Note 3 to the unaudited consolidated financial statements for revenues disaggregated by reportable segments and geography.

Contract balances

The following table provides information about accounts receivable and contract liabilities from contracts with customers:

| | As of June 30, 2018 | December 31, 2017 |
|---|---|---|
| Accounts receivable, net | $147,099 | $135,705 |
| Contract liabilities | | |
| Deferred revenue (advance payments portion) | $9,969 | $9,311 |

Accounts receivable includes $58,339 and $49,125 as of June 30, 2018 and December 31, 2017, respectively, representing amounts not billed to customers. The Company has accrued the unbilled receivables for work performed in accordance with the terms of contracts with customers and considers no significant performance risk associated with its unbilled receivables.

Contract liabilities represents that portion of deferred revenue for which payments have been received in advance from customers and are included within current liabilities. Contract liabilities are recognized; as revenue as (or when) we perform under the contract.

Revenue recognized from the carrying value of contract liabilities as of December 31, 2017 during the three and six months ended June 30, 2018 was $2,671 and $6,381, respectively.

Contract acquisition costs

As of January 1, 2018, we capitalized $454 as contract acquisition costs related to contracts that were not completed. Further, we capitalized an additional nil and $672 during the three and six months ended June 30, 2018, respectively, and amortized $80 and $153 during the three and six months ended June 30, 2018, respectively. There was no impairment loss in relation to costs capitalized. The capitalized costs will be amortized on a straight line basis over the life of contract.

Contract fulfillment costs

The Company has deferred contract fulfillment costs relating to transition activities amounting to $3,058 and $2,769 as of June 30, 2018 and December 31, 2017, respectively. In addition, we capitalized an additional $65 and $685 during the three and six months ended June 30, 2018, respectively, and amortized $254 and $395 during the three and six months ended June 30, 2018, respectively. There was no impairment loss in relation to costs capitalized. The capitalized costs will be amortized on a straight line basis over the life of contract.

Consideration received from customers, if any, relating to such transition activities are classified under Contract Liabilities and are recognized ratably over the period in which the related performance obligations are fulfilled.

5. 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 (outstanding stock options, restricted stock and restricted stock units) 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.

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Numerator: | | | | |
| Net income | $14,462 | $ 20,378 | $37,620 | $ 37,166 |
| Denominators: | | | | |
| Basic weighted average common shares outstanding | 34,511,777 | 33,819,320 | 34,479,202 | 33,833,153 |
| Dilutive effect of share based awards | 630,611 | 1,173,906 | 743,636 | 1,218,614 |
| Diluted weighted average common shares outstanding | 35,142,388 | 34,993,226 | 35,222,838 | 35,051,767 |
| Earnings per share attributable to ExlService Holdings Inc. stockholders: | | | | |
| Basic | $0.42 | $ 0.60 | $1.09 | $ 1.10 |
| Diluted | $0.41 | $ 0.58 | $1.07 | $ 1.06 |
| Weighted average potentially dilutive shares considered anti-dilutive and not included in computing diluted earnings per share | 336,599 | 2,893 | 242,561 | 227,941 |

6. Cash, Cash Equivalents and Restricted Cash

For the purpose of unaudited statements of cash flows, cash, cash equivalents and restricted cash comprise of the following:

| | As of | |
|---|---|---|
| | June 30, 2018 | June 30, 2017 |
| Cash and cash equivalents | $84,091 | $89,414 |
| Restricted cash (current) | 2,256 | 1,898 |
| Restricted cash (non-current) | 3,645 | 3,692 |
| | $89,992 | $95,004 |

7. Other Income, net

Other income, net consists of the following:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Interest and dividend income | $329 | $323 | $637 | $995 |
| Gain on sale of mutual funds | 1,694 | 2,438 | 4,827 | 4,221 |
| Others, net | 209 | (249 ) | 302 | 482 |
| Other income, net | $2,232 | $2,512 | $5,766 | $5,698 |

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8. Property and Equipment, net

Property and equipment, net consist of the following:

| | Estimated useful lives (Years) | As of June 30, 2018 | December 31, 2017 |
|---|---|---|---|
| Owned Assets: | | | |
| Network equipment and computers | 3-5 | $77,183 | $77,587 |
| Software | 3-5 | 63,827 | 59,325 |
| Leasehold improvements | 3-8 | 37,506 | 38,857 |
| Office furniture and equipment | 3-8 | 19,823 | 19,667 |
| Motor vehicles | 2-5 | 597 | 638 |
| Buildings | 30 | 1,162 | 1,245 |
| Land | — | 760 | 815 |
| Capital work in progress | — | 8,402 | 9,184 |
| | | 209,260 | 207,318 |
| Less: Accumulated depreciation and amortization | | (143,553) | (141,059) |
| | | $65,707 | $66,259 |
| Assets under capital leases: | | | |
| Leasehold improvements | | $812 | $941 |
| Office furniture and equipment | | 77 | 167 |
| Motor vehicles | | 612 | 710 |
| | | 1,501 | 1,818 |
| Less: Accumulated depreciation and amortization | | (1,096) | (1,320) |
| | | $405 | $498 |
| Property and equipment, net | | $66,112 | $66,757 |

Capital work in progress represents advances paid towards acquisition of property and equipment and cost incurred to develop software not yet ready to be placed in service.

The depreciation and amortization expense excluding amortization of acquisition-related intangibles recognized in the unaudited consolidated statements of income was as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Depreciation and amortization expense | $6,821 | $6,028 | $13,378 | $11,902 |

Effective January 1, 2017, the depreciation and amortization expenses set forth above includes the effect of foreign exchange gain upon settlement of cash flow hedges, amounting to $42 and $102 for the three months ended and $193 and $156 for the six months ended June 30, 2018 and 2017, respectively. Refer to Note 17 to the unaudited consolidated financial statements for further details.

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Internally developed software costs, included under Software, was as follows:

| | As of June 30, 2018 | December 31, 2017 |
|---|---|---|
| Cost | $7,625 | $ 2,571 |
| Less : Accumulated amortization | 1,448 | 976 |
| | $6,177 | $ 1,595 |

9. Business Combinations, Goodwill and Intangible Assets

Health Integrated, Inc.

On December 22, 2017, a wholly owned subsidiary of the Company entered into an Asset Purchase Agreement to acquire substantially all the assets and assumed certain liabilities of Health Integrated, Inc. (“Health Integrated”), a company based in Tampa, Florida. The initial purchase price consisted of $22,577 in cash including working capital adjustment. The purchase agreement allows sellers the ability to earn up to $5,000 as earn-out, based on the achievement of certain performance goals by the acquired Health Integrated business during the 2018 calendar year. The earn-out was fair valued at $920 as of December 31, 2017. As of June 30, 2018 fair value of earn-out is Nil.

A portion of the purchase price otherwise payable was placed into escrow as security for the post-closing working capital adjustments and the indemnification obligations under the Asset Purchase Agreement.

Health Integrated provides dedicated care management services on behalf of health plans. Its services include case management, utilization management, disease management, special needs programs and multichronic care management. Health Integrated serves millions of lives in the Medicaid, Medicare, and dual eligible populations. It is known for its strong capabilities in improving member health status through behavioral change. Accordingly, the Company paid a premium for the acquisition, which is reflected in the goodwill recognized from the purchase price allocation. The acquisition of Health Integrated is included in the Healthcare reportable segment.

The Company finalized its purchase price allocation for the acquisition based on their fair values as set forth below:

| | Amount |
|---|---|
| Tangible Assets | $5,475 |
| Liabilities | (5,733 ) |
| Identifiable Intangible Assets: | |
| Customer relationships | 6,760 |
| Developed technology | 1,510 |
| Trade names and trademarks | 570 |
| Goodwill | 14,229 |
| Total purchase price | $22,811 |

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

The customer relationships from the Health Integrated acquisition are being amortized over the weighted average useful life of 7.0 years and developed technology and trademarks are being amortized over the useful life of 1.0 year and 2.0 years, respectively.

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Goodwill

The following table sets forth details of the Company’s goodwill balance as of June 30, 2018:

| | Insurance | Healthcare | TT&L | F&A | All Other | Analytics | Total |
|---|---|---|---|---|---|---|---|
| Balance as at January 1, 2017 | $38,110 | $19,276 | $12,983 | $47,537 | $5,326 | $63,538 | $186,770 |
| Acquisitions | — | 15,957 | — | — | — | — | 15,957 |
| Currency translation adjustments | 223 | — | 696 | 835 | — | — | 1,754 |
| Balance as at December 31, 2017 | $38,333 | $35,233 | $13,679 | $48,372 | $5,326 | $63,538 | $204,481 |
| Measurement period adjustments* | — | (1,728) | — | — | — | — | (1,728) |
| Currency translation adjustments | (56) | — | (780) | (936) | — | — | (1,772) |
| Balance as at June 30, 2018 | $38,277 | $33,505 | $12,899 | $47,436 | $5,326 | $63,538 | $200,981 |

* Subsequent to December 31, 2017, adjustments of $1,728 have been made to the amounts of net tangible assets acquired and the earn-out with the corresponding offsets to goodwill. These adjustments are within the measurement period and have been accounted for prospectively. These adjustments did not have a significant impact on the Company’s unaudited consolidated statements of income, balance sheets or cash flows.

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Intangible Assets

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

| | As of June 30, 2018 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Finite-lived intangible assets: | | | |
| Customer relationships | $82,063 | $ (48,842 ) | $ 33,221 |
| Leasehold benefits | 2,694 | (2,518 ) | 176 |
| Developed technology | 15,800 | (10,657 ) | 5,143 |
| Non-compete agreements | 2,045 | (1,861 ) | 184 |
| Trade names and trademarks | 5,945 | (4,399 ) | 1,546 |
| | $108,547 | $ (68,277 ) | $ 40,270 |
| Indefinite-lived intangible assets: | | | |
| Trade names and trademarks | $900 | $ — | $ 900 |
| Total intangible assets | $109,447 | $ (68,277 ) | $ 41,170 |

| | As of December 31, 2017 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Finite-lived intangible assets: | | | |
| Customer relationships | $82,165 | $ (43,667 ) | $ 38,498 |
| Leasehold benefits | 2,888 | (2,596 ) | 292 |
| Developed technology | 15,835 | (8,749 ) | 7,086 |
| Non-compete agreements | 2,045 | (1,780 ) | 265 |
| Trade names and trademarks | 5,951 | (4,034 ) | 1,917 |
| | $108,884 | $ (60,826 ) | $ 48,058 |
| Indefinite-lived intangible assets: | | | |
| Trade names and trademarks | $900 | $ — | $ 900 |
| Total intangible assets | $109,784 | $ (60,826 ) | $ 48,958 |

The amortization expense for the period is as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Amortization expense | $3,761 | $3,507 | $7,708 | $7,005 |

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

| | (in years) |
|---|---|
| Customer relationships | 5.13 |
| Leasehold benefits | 0.92 |
| Developed technology | 3.00 |
| Non-compete agreements | 1.22 |
| Trade names and trademarks (Finite lived) | 4.20 |

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| | |
|---|---|
| Estimated amortization of intangible assets during the next twelve months ending June 30, | |
| 2019 | $13,815 |
| 2020 | 9,001 |
| 2021 | 4,359 |
| 2022 | 3,583 |
| 2023 | 3,065 |
| 2024 and thereafter | 6,447 |
| Total | $40,270 |

10. Investment in equity affiliate

On December 12, 2017, the Company acquired preferred stock in Corridor Platform Inc. ("Corridor"), a big data credit risk management platform for $3,000. The Company has determined that based on its ownership interest and other rights, Corridor is an equity affiliate. The Company has the right and option to acquire additional preferred stock from Corridor as per the terms of the agreement. The Company's proportionate share of net loss for the three months and six months ended June 30, 2018 was $58 and $114, respectively.

11. Other current assets

Other current assets consist of the following:

| | As of June 30, 2018 | December 31, 2017 |
|---|---|---|
| Derivative instruments | $4,787 | $ 10,938 |
| Advances to suppliers | 2,710 | 2,451 |
| Receivables from statutory authorities | 9,670 | 7,598 |
| Others | 5,835 | 8,595 |
| Other current assets | $23,002 | $ 29,582 |

12. Other assets

Other assets consist of the following:

| | As of June 30, 2018 | December 31, 2017 |
|---|---|---|
| Lease deposits | $8,522 | $ 8,776 |
| Derivative instruments | 1,128 | 7,361 |
| Deposits with statutory authorities | 6,378 | 6,492 |
| Term deposits | 9,015 | 6,909 |
| Others | 10,990 | 6,831 |
| Other assets | $36,033 | $ 36,369 |

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13. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

| | As of June 30, 2018 | December 31, 2017 |
|---|---|---|
| Accrued expenses | $43,440 | $ 43,235 |
| Derivative instruments | 4,390 | 555 |
| Client liabilities | 5,107 | 8,982 |
| Other current liabilities | 6,945 | 8,594 |
| Accrued expenses and other current liabilities | $59,882 | $ 61,366 |

14. Other non-current liabilities

Other non-current liabilities consist of the following:

| | As of June 30, 2018 | December 31, 2017 |
|---|---|---|
| Derivative instruments | $5,788 | $ 322 |
| Unrecognized tax benefits | 892 | 892 |
| Deferred rent | 7,632 | 8,176 |
| Retirement benefits | 3,363 | 3,377 |
| Other non-current liabilities | 1,155 | 3,435 |
| Non-current liabilities | $18,830 | $ 16,202 |

15. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists of amortization of actuarial gain/(loss) on retirement benefits and changes in the cumulative foreign currency translation adjustments. In addition, the Company enters into foreign currency exchange contracts, which are designated as cash flow hedges in accordance with ASC topic 815. Changes in the fair values of contracts are recognized in accumulated other comprehensive loss on the Company's consolidated balance sheet until the settlement of those contracts. The balances as of June 30, 2018 and December 31, 2017 are as follows:

| | As of June 30, 2018 | December 31, 2017 |
|---|---|---|
| Cumulative foreign currency translation (loss) | $(84,435) | $(58,405) |
| Unrealized (loss)/gain on cash flow hedges, net of taxes of ($657) and $4,918, respectively | (3,874) | 11,932 |
| Retirement benefits, net of taxes of ($76) and ($74), respectively | 688 | 763 |
| Accumulated other comprehensive loss | $(87,621) | $(45,710) |

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16. Fair Value Measurements

Assets and Liabilities Measured at Fair Value

The following table sets forth the Company's assets and liabilities that were accounted for at fair value as of June 30, 2018 and December 31, 2017. The table excludes accounts receivable, accounts payable and accrued expenses for which fair values approximate their carrying amounts.

| As of June 30, 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Money market and mutual funds* | $128,563 | $— | $— | $128,563 |
| Derivative financial instruments | — | 5,915 | — | $5,915 |
| Total | $128,563 | $5,915 | $— | $134,478 |
| Liabilities | | | | |
| Derivative financial instruments | $— | $10,178 | $— | $10,178 |
| Total | $— | $10,178 | $— | $10,178 |

| As of December 31, 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Money market and mutual funds* | $162,906 | $— | $— | $162,906 |
| Derivative financial instruments | — | 18,298 | — | 18,298 |
| Total | $162,906 | $18,298 | $— | $181,204 |
| Liabilities | | | | |
| Derivative financial instruments | $— | $877 | $— | $877 |
| Fair value of earn-out consideration | — | — | 920 | 920 |
| Total | $— | $877 | $920 | $1,797 |

* Represents short-term investments carried on fair value option under ASC 825 "Financial Instruments" as of June 30, 2018 and December 31, 2017.

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. Refer to Note 17 to the unaudited consolidated financial statements for further details.

Fair value of earn-out consideration: The fair value measurement of earn-out consideration is determined using Level 3 inputs. The Company's earn-out consideration represents a component of the total purchase consideration for its acquisition of Health Integrated. The measurement was calculated using unobservable inputs based on the Company's own assessment of achievement of certain performance goals by Health Integrated during the 2018 calendar year. The earn-out was fair valued at $920 as of December 31, 2017. As of June 30, 2018, fair value of earn-out is Nil.

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17. 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 as effective hedges and that qualify as cash flow hedges under ASC 815. The Company had outstanding cash flow hedges totaling $353,225 as of June 30, 2018 and $300,757 as of December 31, 2017.
Changes in the fair value of these cash flow hedges are recorded as a component of accumulated other comprehensive income/(loss), net of tax, until the hedged transactions occurs. The Company early adopted ASU 2017-12, Derivative and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities. Pursuant to this adoption, effective January 1, 2017, the resultant foreign exchange gain/(loss) are recorded along with the underlying hedged item in the same line of consolidated statements of income as either part of "Cost of revenues", "General and administrative expenses", "Selling and marketing expenses", "Depreciation and amortization", as applicable.
Prior to January 1, 2017, the resultant foreign exchange gain/(loss) on settlement of cash flow hedges and changes in the fair value of cash flow hedges deemed ineffective were recorded in "Foreign exchange gain, net" in the consolidated statements of income.
The Company also enters into foreign currency forward contracts to economically hedge its intercompany balances and other monetary assets and liabilities denominated in currencies other than functional currencies. These derivatives do not qualify as fair value hedges under ASC 815. Changes in the fair value of these derivatives are recognized in the unaudited consolidated statements of income and are included in foreign exchange gain/(loss). The Company's primary exchange rate exposure is with the Indian Rupee, the U.K. pound sterling and the Philippine peso. The Company also has exposure to Colombian pesos, Czech Koruna, the Euro, South African ZAR and other local currencies in which it operates. Outstanding foreign currency forward contracts amounted to $124,691 and GBP 19,111 as of June 30, 2018 and amounted to $98,967 and GBP 17,947 as of December 31, 2017.
The Company estimates that approximately $245 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, 2018. At June 30, 2018, the maximum outstanding term of the cash flow hedges was 45 months.
The Company evaluates hedge effectiveness at the time a contract is entered into as well as on an ongoing basis. 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 amounts recorded in equity are reclassified to earnings.
The following tables set forth the fair value of the foreign currency exchange contracts and their location on the consolidated financial statements:

| Derivatives designated as hedging instruments : | As of | |
|---|---|---|
| Foreign currency exchange contracts | June 30, 2018 | December 31, 2017 |
| Other current assets | $4,635 | $ 10,892 |
| Other assets | $1,128 | $ 7,360 |
| Accrued expense and other current liabilities | $4,390 | $ 481 |
| Other non-current liabilities | $5,788 | $ 322 |

| Derivatives not designated as hedging instruments : | As of | |
|---|---|---|
| Foreign currency exchange contracts | June 30, 2018 | December 31, 2017 |

| | | |
|---|---|---|
| Other current assets | $ 152 | $ 46 |
| Accrued expense and other current liabilities | $ — | $ 74 |

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The following tables set forth the effect of foreign currency exchange contracts on the unaudited consolidated statements of income and accumulated other comprehensive loss for the three and six months ended June 30, 2018 and 2017:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| Forward Exchange Contracts : | 2018 | 2017 | 2018 | 2017 |
| (Gain)/loss recognized in AOCI | | | | |
| Derivatives in cash flow hedging relationships | $12,229 | $(2,243) | $17,243 | $(11,272) |
| (Gain)/loss recognized in unaudited consolidated statements of income | | | | |
| Derivatives not designated as hedging instruments | $2,641 | $(151) | $5,569 | $(2,773) |

Location and amount of (gain)/loss recognized in unaudited consolidated statements of income for cash flow hedging relationships and derivatives not designated as hedging instruments

| | Three months ended June 30, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | As per unaudited consolidated statements of income | (Gain)/loss on foreign currency exchange contracts | As per unaudited consolidated statements of income | (Gain)/loss on foreign currency exchange contracts |
| Cash flow hedging relationships | | | | |
| Location in unaudited consolidated statements of income where (gain)/loss was reclassed from AOCI | | | | |
| Cost of revenues | $139,649 | $(1,191) | $123,734 | $(1,566) |
| General and administrative expenses | $27,640 | (180) | $24,425 | (288) |
| Selling & marketing expenses | $15,151 | (17) | $13,095 | (30) |
| Depreciation & amortization | $10,582 | (79) | $9,535 | (99) |
| | | $(1,467) | | $(1,983) |
| Derivatives not designated as hedging instruments | | | | |
| Location in unaudited consolidated statements of income where (gain)/loss was recognized | | | | |
| Foreign exchange (gain)/loss, net | $(1,414) | $2,641 | $(886) | $(151) |
| | $(1,414) | $2,641 | $(886) | $(151) |

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| | Six months ended June 30, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | As per unaudited consolidated statements of income | (Gain)/loss on foreign currency exchange contracts | As per unaudited consolidated statements of income | (Gain)/loss on foreign currency exchange contracts |
| Cash flow hedging relationships | | | | |
| Location in unaudited consolidated statements of income where (gain)/loss was reclassed from AOCI | | | | |
| Cost of revenues | $277,750 | $ (3,336 ) | $242,806 | $ (2,296 ) |
| General & administrative expenses | $56,906 | (511 ) | $48,462 | (429 ) |
| Selling & marketing expenses | $29,103 | (50 ) | $26,435 | (48 ) |
| Depreciation & amortization | $21,086 | (241 ) | $18,907 | (140 ) |
| | | $ (4,138 ) | | $ (2,913 ) |
| Derivatives not designated as hedging instruments | | | | |
| Location in unaudited consolidated statements of income where (gain)/loss was recognized | | | | |
| Foreign exchange (gain)/loss, net | $(2,029 ) | $ 5,569 | $(1,268 ) | $ (2,773 ) |
| | $(2,029 ) | $ 5,569 | $(1,268 ) | $ (2,773 ) |

18. Borrowings

On October 24, 2014, the Company entered into a credit agreement that provided for a $50,000 revolving credit facility (the “Credit Facility”). On February 23, 2015, the Company increased the commitments under the Credit Facility by up to an additional $50,000. The Credit Facility had a maturity date of October 24, 2019 and was voluntarily pre-payable from time to time without premium or penalty. On November 21, 2017, the Company prepaid all outstanding amounts, including accrued interest and fees, and terminated all commitments, under the Credit Agreement. The Credit Facility carried an effective interest rate of 2.7% per annum and 2.6% per annum during the three months and six months ended June 30, 2017, respectively.

On November 21, 2017, the Company and each of the Company’s wholly owned material domestic subsidiaries entered into a Credit Agreement with certain lenders, and Citibank, N.A. as Administrative Agent (the “New Credit Agreement”). The New Credit Agreement provides for a $200,000 revolving credit facility (the “New Credit Facility”) with an option to increase the commitments by up to $100,000, subject to certain approvals and conditions as set forth in the New Credit Agreement. The New Credit Agreement also includes a letter of credit sub facility. The New Credit Facility has a maturity date of November 21, 2022 and is voluntarily pre-payable from time to time without premium or penalty. Borrowings under the New Credit Agreement were used to repay amounts outstanding under the Credit Facility and may otherwise be used for working capital and general corporate purposes, including permitted acquisitions.

Depending on the type of borrowing, loans under the New Credit Agreement bear interest at a rate equal to the specified prime rate (alternate base rate) or adjusted LIBO rate, plus, in each case, an applicable margin. The applicable margin is tied to the Company’s total net leverage ratio and ranges from 0% to 0.75% per annum with respect to loans pegged to the specified prime rate, and 1.00% to 1.75% per annum on loans pegged to the adjusted LIBO rate. The revolving credit commitments under the New Credit Agreement are subject to a commitment fee, which is also tied to the Company’s total net leverage ratio, and ranges from 0.15% to 0.30% per annum on the average daily amount by which the aggregate revolving commitments exceed the sum of outstanding revolving loans and letter of credit obligations. The New Credit Facility carried an effective interest rate of 3.8% and 3.6% per annum during the three months and the six months ended June 30, 2018, respectively. Obligations under the New Credit Agreement are guaranteed by the Company's material domestic subsidiaries and are secured by all or substantially all of the assets of the Company and our material domestic subsidiaries. The New Credit Agreement contains affirmative and negative covenants, including, but not limited to, restrictions on the ability to incur indebtedness, create liens, make certain investments, make certain dividends and related distributions, enter into, or undertake, certain liquidations, mergers, consolidations or acquisitions and dispose of assets or subsidiaries. In addition, the New Credit Agreement contains a covenant to not permit the interest coverage ratio or the total net leverage ratio, both as defined for the four consecutive quarter period ending on the last day of each fiscal quarter, to be less than 3.5 to 1.0 or more than 3.0 to 1.0, respectively. As of June 30, 2018, the Company was in compliance with all financial and non-financial covenants listed under the New Credit Agreement.

As of June 30, 2018, we had outstanding debt of $67,000, of which $10,000 is expected to be repaid within the next twelve months and is included under "current portion of long-term borrowings" and of which $57,000 is included under "long-term borrowings" in the unaudited consolidated balance sheets. As of December 31, 2017, we had an outstanding debt of $60,000, of which $10,000 was included under "current portion of long-term borrowings," and the balance of $50,000 was included under "long-term borrowings" in the consolidated balance sheets.

In connection with the New Credit Agreement, the Company incurred issuance costs of $790, which are deferred and amortized as an adjustment to interest expense over the term of the New Credit Facility. The unamortized debt issuance costs as of June 30, 2018 and December 31, 2017 was $694 and $773, respectively, and is included under "other current assets" and "other assets" in the consolidated balance sheets.

Borrowings also includes structured payables which are in the nature of debt, amounting to $644 and $709 as of June 30, 2018 and December 31, 2017 respectively, of which $318 and $318 is included under "current portion of long-term borrowings", $326 and $391 under "long-term borrowings", respectively, in the consolidated balance sheet.

## 19. Capital Structure

### Common Stock

The Company has one class of common stock outstanding.

During the three months ended June 30, 2018 and 2017, the Company acquired 3,835 and 2,219 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 $226 and $103, respectively. The weighted average purchase price per share of $58.82 and $46.51, respectively, was the average of the high and low price of the Company's share of common stock on the Nasdaq Global Select Market on the trading day prior to the vesting date of the shares of restricted stock.

During the six months ended June 30, 2018 and 2017, the Company acquired 45,646 and 65,003 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 $2,790 and $3,016, respectively. The weighted average purchase price per share of $61.12 and $46.40, respectively, was the average of the high and low price of the Company's share of common stock on the Nasdaq Global Select Market on the trading day prior to the vesting date of the shares of restricted stock.

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

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

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During the three and six months ended June 30, 2018, the Company purchased 165,000 and 347,182 shares of its common stock, respectively, for an aggregate purchase price of approximately $9,407 and $20,346, respectively, including commissions, representing an average purchase price per share of $57.01 and $58.60, respectively, under the 2017 Repurchase Program.

During the three and six months ended June 30, 2017, the Company purchased 230,022 and 423,984 shares of its common stock, respectively, for an aggregate purchase price of approximately $11,316 and $20,316, respectively, including commissions, representing an average purchase price per share of $49.20 and $47.92, respectively, under the 2014 and 2017 Repurchase Programs.

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

20. Employee Benefit Plans

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

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

Components of net periodic benefit cost:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Service cost | $423 | $494 | $862 | $978 |
| Interest cost | 173 | 166 | 353 | 328 |
| Expected return on plan assets | (118) | (111) | (242) | (218) |
| Amortization of actuarial (gain)/loss | (38) | 71 | (77) | 140 |
| Net periodic benefit cost | $440 | $620 | $896 | $1,228 |

On January 1, 2018, the Company adopted ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost. Pursuant to this, the Company presented service cost separately from other components of net periodic costs for all periods presented. The interest cost, expected return on plan assets and amortization of actuarial (gain)/loss, have been reclassified from “Cost of revenues”, “General and administrative expenses” and “Selling and marketing expenses” to “Other income, net”.

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The effect of the retrospective presentation change related to the net periodic cost of our defined benefit Gratuity Plan on applicable lines of our unaudited consolidated statements of income was as follows -

| | Three months ended June 30, 2017 | | | Six months ended June 30, 2017 | | |
|---|---|---|---|---|---|---|
| | As revised | Previously reported* | Effect of change Higher/(Lower) | As revised | Previously reported* | Effect of change Higher/(Lower) |
| Location in unaudited consolidated statements of income | | | | | | |
| Cost of revenues | $123,734 | $123,846 | $ (112) | $242,806 | $243,027 | $ (221) |
| General and administrative expenses | $24,425 | $24,438 | $ (13) | $48,462 | $48,489 | $ (27) |
| Selling and marketing expenses | $13,095 | $13,096 | $ (1) | $26,435 | $26,437 | $ (2) |
| Other income, net | $2,512 | $2,638 | $ (126) | $5,698 | $5,948 | $ (250) |

* Adjusted for the impact of adoption of ASU 2017-12. Refer to Note 17 of the unaudited consolidated financial statements.

The Gratuity Plan in India is partially funded and the Philippines plan is unfunded. The Company makes annual contributions to the employees' gratuity fund established with Life Insurance Corporation of India and HDFC Standard Life Insurance Company. They calculate the annual contribution required to be made by the Company and manage the Gratuity Plans, including any required payouts. Fund managers manage these funds on a cash accumulation basis and declare interest retrospectively on June 30 of each year. The Company earned a return of approximately 7.8% per annum on these Gratuity Plans for the six months ended June 30, 2018.

Change in Plan Assets

| | |
|---|---|
| Plan assets at January 1, 2018 | $6,915 |
| Actual return | 275 |
| Employer contribution | — |
| Benefits paid | (576) |
| Effect of exchange rate changes | (454) |
| Plan assets at June 30, 2018 | $6,160 |

The Company maintains several 401(k) plans (the "401(k) Plans") under Section 401(k) of the Internal Revenue Code of 1986 (the “Code”), covering all eligible employees, as defined in the Code as a defined contribution plan. The Company may make discretionary contributions of up to a maximum of 4% of employee compensation within certain limits. The Company made provision for 401(k) Plans amounting to $755 and $496 for the three months ended June 30, 2018 and 2017, respectively, and $1,985 and $1,564 for the six months ended June 30, 2018 and 2017, respectively.

During the three months ended June 30, 2018 and 2017, the Company contributed $1,753 and $1,792, respectively, and during the six months ended June 30, 2018 and 2017, the Company contributed $3,667 and $3,505, respectively, for various defined contribution plans on behalf of its employees in India, the Philippines, Bulgaria, Romania, the Czech Republic, South Africa, Colombia, and Singapore.

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## 21. Leases

The Company finances its use of certain motor vehicles and other equipment under various lease arrangements provided by financial institutions. Future minimum lease payments under these capital leases as of June 30, 2018 are as follows:

| | |
|---|---|
| During the next twelve months ending June 30, | |
| 2019 | $273 |
| 2020 | 162 |
| 2021 | 101 |
| 2022 | 57 |
| Total minimum lease payments | 593 |
| Less: amount representing interest | 100 |
| Present value of minimum lease payments | 493 |
| Less: current portion | 223 |
| Long term capital lease obligation | $270 |

The Company conducts its operations using facilities leased under operating lease agreements that expire at various dates. Future minimum lease payments under such agreements expiring after June 30, 2018 are set forth below:

| | |
|---|---|
| During the next twelve months ending June 30, | |
| 2019 | $21,402 |
| 2020 | 17,854 |
| 2021 | 16,751 |
| 2022 | 13,675 |
| 2023 | 13,021 |
| 2024 and thereafter | 36,164 |
| | $118,867 |

Rent expense

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Rent expense | $6,057 | $6,139 | $12,479 | $11,806 |

Deferred rent

| | As of June 30, 2018 | December 31, 2017 |
|---|---|---|
| | (Unaudited) | |
| Cancelable and non-cancelable operating leases | $8,636 | $ 8,959 |

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

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22. 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 $5,510 and $823 for the three months ended June 30, 2018 and 2017, respectively. The effective tax rate increased from 3.9% during the three months ended June 30, 2017 to 27.5% during the three months ended June 30, 2018 primarily as a result of a: (i) reversal of an uncertain tax position of $3,153 during the three months ended June 30, 2017 and (ii) recording of excess tax benefit related to stock awards of $1,624 pursuant to ASU No. 2016-09 during the three months ended June 30, 2017 compared to $323 during the three months ended June 30, 2018.

The Company recorded income tax expense of $1,057 and $4,383 for the six months ended June 30, 2018 and 2017, respectively. The effective tax rate decreased from 10.5% during the six months ended June 30, 2017 to 2.7% during the six months ended June 30, 2018 primarily as a result of: (i) an adjustment of $4,836 reducing the provisional transition tax on the mandatory deemed repatriation of accumulated earnings and profits ("E&P") of foreign subsidiaries recognized during the year-ended December 31, 2017, (ii) a reduction in the U.S. federal corporate tax rate from 35.0% to 21.0% effective January 1, 2018, and (iii) excess tax benefits related to stock awards of $5,150 pursuant to ASU No. 2016-09 during the six months ended June 30, 2018 compared to $3,681 during the six months ended June 30, 2017, offset by reversal of uncertain tax position of $3,153 during the three months ended June 30, 2017.

The SEC staff issued Staff Accounting Bulletin ("SAB 118"), which provides guidance on accounting for the tax effects of the U.S. Tax Cuts and Jobs Act of 2017 (the “Tax Reform Act”). SAB 118 provides a measurement period that should not extend beyond one year from the Tax Reform Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Reform Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Reform Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Reform Act.

The deemed repatriation transition tax (the “Transition Tax”) is a tax on certain previously untaxed accumulated and current E&P of the Company's foreign subsidiaries. The Company was able to reasonably estimate the Transition Tax and recorded an initial provisional Transition Tax obligation of $27,236, with a corresponding adjustment of $27,236 to income tax expense for the year ended December 31, 2017. On the basis of additional technical research and analysis, the Company recognized a measurement-period reduction of $4,836 to the Transition Tax obligation, with a corresponding adjustment of $4,836 to the income tax expense during the six months ended June 30, 2018. As of June 30, 2018, a total Transition Tax obligation of $22,400 has been recorded, with a corresponding adjustment of $22,400 to the income tax expense. However, the Company continues to gather additional information to more precisely compute the amount of the Transition Tax, and its accounting for this item is not yet complete because of, among other things, changes in the interpretations and assumptions, additional guidance that may be issued by the Internal Revenue Service ("I.R.S."), and actions the Company may take. The Company expects to complete its accounting within the prescribed measurement period.

This inclusion of foreign untaxed earnings resulted in previously taxed income (PTI) which may be subject to withholding taxes and currency gains or losses upon repatriation. The Company does not intend to distribute PTI of its foreign subsidiaries and has not recorded any deferred taxes related to its investment in foreign subsidiaries. The

Company estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and has specific plans for use of the subsidiaries earnings. If, in the future, the Company changes its intention regarding the repatriation of PTI, additional taxes may be required and should be recorded in the period the intention changes.

As noted at year-end, the Company was able to reasonably estimate and record provisional adjustments associated with the corporate rate change in the amount of $1,949. The Company has not made any additional measurement period adjustment related to this item during the six months ended June 30, 2018 because it continues to evaluate potential method changes and implications of certain provisions of the Act, as well as additional guidance provided by the tax authorities. The Company continues to gather additional information and expects to complete its accounting within the prescribed measurement period.

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## 23. Stock-Based Compensation

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Cost of revenues | $1,370 | $1,129 | $2,463 | $2,339 |
| General and administrative expenses | 3,099 | 2,344 | 5,349 | 4,940 |
| Selling and marketing expenses | 2,424 | 1,634 | 4,155 | 3,784 |
| Total | $6,893 | $5,107 | $11,967 | $11,063 |

As of June 30, 2018, the Company had 3,192,319 shares available for grant under the 2018 Omnibus Incentive Plan, which was adopted by the Company's stockholders in June 2018, at which time new awards under the Company's 2015 Amendment and Restatement of the 2006 Omnibus Award Plan were not permitted to be made.

### Stock Options

Stock option activity under the Company’s stock-based compensation plans is shown below:

| | Number of Options | Weighted Avg Exercise Price | Aggregate Intrinsic Value | Weighted Avg Remaining Contractual Life (Years) |
|---|---|---|---|---|
| Outstanding at December 31, 2017 | 259,563 | $ 18.03 | $ 10,985 | 2.76 |
| Granted | — | — | | |
| Exercised | (25,000 ) | 17.22 | 1,092 | |
| Forfeited | — | — | | |
| Outstanding at June 30, 2018 | 234,563 | $ 18.12 | $ 9,029 | 2.35 |
| Vested and exercisable at June 30, 2018 | 234,563 | $ 18.12 | $ 9,029 | 2.35 |

The unrecognized compensation cost for unvested options as of June 30, 2018 is Nil.

### Restricted Stock and Restricted Stock Units

Restricted stock and restricted stock unit activity under the Company’s stock-based compensation plans is shown below:

| | Restricted Stock | | Restricted Stock Units | |
|---|---|---|---|---|
| | Number | Weighted Average Fair Value | Number | Weighted Average Fair Value |
| Outstanding at December 31, 2017* | 182,267 | $ 42.64 | 1,046,999 | $ 42.26 |
| Granted | — | — | 362,735 | 60.54 |
| Vested | (36,639 ) | 35.91 | (386,193 ) | 39.15 |
| Forfeited | (14,620 ) | 47.86 | (33,530 ) | 51.52 |
| Outstanding at June 30, 2018* | 131,008 | $ 43.94 | 990,011 | $ 49.86 |

* As of June 30, 2018 and December 31, 2017 restricted stock units vested for which the underlying common stock is yet to be issued are 155,753 and 146,112, respectively.

As of June 30, 2018, unrecognized compensation cost of $44,369 is expected to be expensed over a weighted average period of 2.74 years.

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Performance Based Stock Awards

Performance based restricted stock unit (the “PRSUs”) activity under the Company’s stock-based compensation plans is shown below:

| Revenue Based PRSUs | Market Condition Based PRSUs |
|---|---|