

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019
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 (State or other jurisdiction of incorporation or organization)	82-0572194 (I.R.S. Employer Identification No.)
320 Park Avenue, 29th Floor, New York, New York (Address of principal executive offices)	10022 (Zip code)
(212) 277-7100 (Registrant's telephone number, including area code)	

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class:</u>	<u>Trading symbol(s)</u>	<u>Name of Each Exchange on Which Registered:</u>
Common Stock, par value \$0.001 per share	EXLS	NASDAQ

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

As of June 30, 2019, the aggregate market value of common stock held by non-affiliates was approximately \$2,189,025,465.

As of February 25, 2020, there were 34,364,691 shares of the registrant's common stock outstanding, par value \$0.001 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information from certain portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the fiscal year end of December 31, 2019.

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ITEM 1. Business

ExlService Holdings, Inc. (“EXL”, “we”, “us”, “our” or the “Company”), incorporated in Delaware in 2002, is a leading operations management and analytics company that helps its clients build and grow sustainable businesses. By orchestrating our domain expertise, data, analytics and digital technology, we look deeper to design and manage agile, customer-centric operating models to improve global operations, drive profitability, enhance customer satisfaction, increase data-driven insights, and manage risk and compliance. We serve customers in multiple industries, including insurance, healthcare, banking and financial services, utilities, travel, transportation and logistics, media and retail, among others. Headquartered in New York, we have more than 31,700 professionals in locations throughout the United States, the United Kingdom, Europe, India, the Philippines, Colombia, Australia and South Africa.

We operate in the business process management (“BPM”) industry, and we provide operations management and analytics services. As described below, effective January 1, 2020, we realigned our operating and reportable segments, but the presentation in this Annual Report, including the discussion in the next two paragraphs, refers to the structure in place prior to such realignment.

Our eight operating segments are strategic business units that align our products and services with how we manage our business, approach our key markets and interact with our clients. Five of those operating segments provide BPM or “operations management” services, which we organize into industry-focused operating segments (Insurance, Healthcare, Travel, Transportation and Logistics, Banking and Financial Services, and Utilities) and one of the operating segments is a “capability” segment (Finance and Accounting) that provides services to clients in our industry-focused segments as well as clients across other industries. In each of these six operating segments we provide operations management services, which typically involve transfer to the Company of business operations of a client, after which we administer and manage those operations for our client on an ongoing basis. Our remaining two operating segments are Consulting, which provides industry-specific digital transformational services related to operations management services, and our Analytics operating segment, which provides services that focus on driving improved business outcomes for clients by generating data-driven insights across all parts of their business. Together, our operations management and analytics services support our customers’ digital transformation agendas, through our differentiated strategy and approach that we call Digital Intelligence. Digital Intelligence combines our capabilities across domain and data to create context that enables us find opportunities for our clients to improve performance, enhance customer experiences and increase profitability. Our digital professionals then orchestrate domain expertise, process excellence and advanced digital technologies in the right mix to deliver significant business outcomes.

We present information for the following reportable segments:

- Insurance,
- Healthcare,
- Travel, Transportation and Logistics,
- Finance and Accounting,
- Analytics, and
- All Other (consisting of our remaining operating segments, including our Banking and Financial Services, Utilities and Consulting operating segments).

Effective January 1, 2020, we made certain operational and structural changes to more closely integrate our businesses and to simplify our organizational structure. We now manage and report financial information through our four strategic business units: Insurance, Healthcare, Analytics and Emerging Business, which reflects how management will review financial information and make operating decisions. These business units will develop client-specific solutions, build capabilities, maintain a unified go-to-market approach and be integrally responsible for service delivery, customer satisfaction, growth and profitability. In line with our strategy of vertical integration and focus on domain expertise, we have integrated our Finance & Accounting and Consulting operating segments within each of the Insurance and Healthcare operating segments based on the respective industry-specific clients. Finance & Accounting and Consulting Services to clients outside of those industries, will now be part of our newly formed business unit and reportable segment ‘Emerging Business’. In addition, we integrated our former Travel, Transportation and Logistics, Banking and Financial Services, and Utilities operating segments under “Emerging Business” to further leverage and optimize the operating scale in providing operations management services.

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Our new reportable segments effective January 1, 2020 are as follows:

- Insurance,
- Healthcare,
- Analytics, and
- Emerging Business

This change in segment presentation will not have any effect on our consolidated statements of income, balance sheets or statements of cash flows. The revised presentation will be reflected in our subsequent periodic and annual reports.

Operations Management Services

Our operations management services, which we provide from our Insurance, Healthcare, Travel, Transportation and Logistics, Finance and Accounting, Banking and Financial Services, and Utilities operating segments, typically involve the transfer to EXL business operations of a client such as claims processing, clinical operations, or financial transaction processing, after which we administer and manage those operations for our client on an ongoing basis, or in case of consulting, consulting services related to transformation services, including digital transformation services. We use a focused industry vertical approach to manage our business and to provide a suite of integrated BPM services to organizations in the insurance, healthcare, travel transportation and logistics, banking and financial services and utilities industries in addition to providing finance and accounting and consulting services across these industries as well as to clients in other industries like manufacturing and media among others.

The key differentiators and salient features of our BPM services include our agile operating and delivery model utilizing domain and data expertise and process excellence, the Digital EXLerator Framework™, our ability to deploy a Business Process-as-a-Service (“BPaaS”) delivery model, business process automation (including robotics), consulting-driven digital transformation and our industry vertical focused approach. The Digital EXLerator Framework™, is our integrated approach to operations management which enables us to drive better customer outcomes by using advanced automation (such as robotics, advanced analytics and artificial intelligence), process optimization (lean six-sigma), along with smart workflow, driving better orchestration of human talent and technology.

While the majority of our operations management services are provided to clients using client-owned or licensed technology platforms, we also deliver our services across clients and industries using a BPaaS delivery model. The BPaaS delivery model includes the provision of a technology platform along with process management services. The service offering typically requires lower capital outlay, is faster to implement and is priced based on the number of transactions or usage by the client. These services may use standardized and shared technology and operational delivery infrastructure enabling us to leverage technology and infrastructure investments across multiple clients.

The operating segments providing operations management services are described below:

Our **Insurance** operating segment serves property and casualty insurance, life insurance, disability insurance, annuity and retirement services companies. We provide BPM services related to business processes in the insurance industry such as claims processing, subrogation, premium and benefit administration, agency management, account reconciliation, policy research, underwriting support, new business processing, policy servicing, premium audit, surveys, billing and collection, commercial and residential survey, and customer service using the Digital EXLerator Framework™, robotics and advanced automation. We provide insurance policy administration and digital customer acquisition services using a BPaaS delivery model through our LifePRO® and Liss platforms in order to help clients administer life insurance, health insurance, annuities and credit life and disability insurance policies. We also provide subrogation services to property and casualty insurers using a BPaaS delivery model and our proprietary Subrosorce® software platform, the largest commercial end-to-end subrogation platform. Subrosorce® integrates with client systems, manages recovery workflow, increases recoveries and reduces costs.

Our **Healthcare** operating segment primarily serves U.S.-based healthcare payers, providers and life sciences organizations. We provide BPM services related to Care Management, Utilization Management, disease management, payment integrity, revenue optimization and customer engagement directly addressing the market need for improved healthcare outcomes, reduced claims, medical and administrative costs, and improved access to the healthcare system in the healthcare market.

We offer BPaaS, software-as-a-service (“SaaS”) and platform BPM services designed to serve the healthcare industry as well as proprietary technology platforms, robotics and advanced analytics. EXL’s CareRadius® and MaxMC® applications connect payors, providers and members with critical clinical information, and automates a payor’s operations to increase efficiencies across all aspects of care management, including behavioral health.

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Our **Travel, Transportation and Logistics** operating segment primarily serves clients in the travel & leisure and transportation and logistics industries, including less-than-truckload (LTL), truckload and intermodal logistics sectors. We provide BPM services related to business processes in corporate and leisure travel such as reservations, customer service, fulfillment and finance and accounting. Our operating model encompasses analytics driven transformation aimed at cost reduction and customer experience enhancement. In addition, we have expertise in processing transportation and logistics transactions, including supply chain management, warehousing, transportation management and international logistics services using advanced automation, including robotics process automation. For companies in the transportation and logistics sector, we provide sales, billing, collection, claims management, revenue management, accounting freight audit and payment and logistics engineering services. We are focused on developing new integrated solutions in this operating segment in the areas of customer experience and finance and accounting operations by combining our domain, data and digital capabilities. Our advanced analytics-based inside sales and revenue leakage prevention solutions are designed to deliver a direct topline impact to our customers.

Our **Finance and Accounting (“F&A”)** operating segment provides finance and accounting BPM and Digital Transformation services across an array of F&A processes, including procure-to-pay, order-to-cash, hire-to-retain, record-to-report, regulatory reporting, financial planning and analysis, audit and assurance, reconciliations, treasury and tax processes. This operating segment provides services across the five industry verticals within operations management as well as to clients in other industries like manufacturing, business services, media and retail among others. We partner with our clients to provide digital transformation services to help them simplify and scale their F&A processes, drive customer centricity, improve controls and compliance, reduce operating costs and deliver rich data driven insights to their businesses. We do this by meaningfully combining our deep capabilities in finance transformation, risk management, advanced analytics and intelligent automation, including Artificial Intelligence (“AI”) and machine learning.

Our **Banking and Financial Services** operating segment offers a comprehensive range of BPM services across the spectrum of the banking and financial services industry, including residential mortgage lending, retail banking and credit cards, commercial banking and investment management. Our operating models encompass process re-engineering with improved customer experience and cost reduction. We integrate front, middle and back-office operations as one seamless experience with a digitally enabled customer journey and experience framework. Leveraging our deep end-to-end expertise within analytics, we are able to enhance the effectiveness of our client operations. EXL uses robotics process automation and proprietary business intelligence tools to innovate workflow management, transaction monitoring, and management information and reporting to enhance transparency in regulatory and management reporting. In addition to banks and financial services firms, EXL works with financial technology companies to supplement their marketing and sales operations, support their processing and underwriting as well as enhance their servicing and collections efforts.

Our **Utilities** operating segment services offers BPM services related to enhancing operating models, improving customer experience, reducing costs, shortening turnaround time and simplifying compliance for our clients. By leveraging our “Model Office” framework, we combine domain expertise, customer-centric operations management practices, robotics and advanced analytics capabilities with cloud-based billing and customer relationship management platform, digital services, industry-specific products, business process automation and robotics. We remain focused on bringing new analytics-led integrated solutions in this operating segment that are designed to deliver higher operational efficiencies and improved end customer experience for our clients.

Consulting

Our **Consulting** operating segment provides industry-specific digital transformational services, targeting select industries and functions across Insurance, Healthcare, Travel, Transportation and Logistics, Banking and Financial Services and Finance and Accounting. Our services are designed to address contemporary problems across the aforementioned domains, embracing the digital and analytics revolution, to deliver business models that help our clients realize their business and innovation goals and improve their strategic competitive position. Our digital consulting offerings include leveraging design thinking to help improve customer experience, using lean models to drive process excellence and using agile delivery models to implement digital technologies and interventions like customer experience transformation, advanced automation and robotics and enterprise architecture. Our approach to consulting is focused on delivering goals across growth and scalability, customer experience improvement, cost and efficiency as well as scale. We are focused on building and delivering industry solutions in insurance, healthcare and other verticals to drive end-to-end transformation across the service delivery value chain, spanning contact center automation, content extraction capabilities and onboarding, underwriting, claims processing, policy administration and finance, audit and compliance transformation.

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We also offer a full range of finance transformation services to the CFO suite, including finance platform modernization and implementation, finance process transformation and digitization as well as governance, risk and compliance support. Our Finance Transformation practice works with CFOs and Chief Audit Executives to make their finance functions more efficient by improving the management of their risk and compliance efforts, enhancing performance, reducing cost, and increasing automation.

Analytics

We are a “Strategic Digital Transformation Partner” for our clients in analytics. By leveraging our full suite of analytics capabilities, our Analytics focus on driving improved business outcomes for our customers by generating data-driven insights across all parts of our customers’ businesses. Our teams deliver predictive and prescriptive analytics in the areas of customer acquisition and life cycle management, risk underwriting and pricing, operational effectiveness, credit and operational risk monitoring and governance, regulatory reporting, and data management. We use a spectrum of advanced analytical tools and techniques, including our in-house Machine Learning (“ML”) and “AI” capabilities. We leverage and deploy our proprietary ML and AI solutions to help deliver improved business outcomes throughout our client’s value chain and to address a range of complex industry-wide problems including:

- Advanced natural language understanding and deep learning models to address unstructured text and data,
- Computer-assisted vision and deep learning-based image analytics to analyze photos and videos, and
- Advanced pattern recognition techniques to identify consumer behavior triggers embedded in multiple formats of data.

Our Analytics team comprises over 4,500 professionals, including data scientists, data architects, business analysts, statisticians, modelers, industry domain specialists and data experts.

We help our customers leverage internal and external data sources, enhance their data assets, identify and visualize data patterns, and utilize data-driven insights to improve their effectiveness. Our Analytics services for our customers include:

- Identification, cleansing, matching and use of structured, semi-structured and unstructured data available both internally to our customer’s organization and externally;
- Deployment of analytics professionals and data scientists who utilize analytics tools, cutting edge statistical techniques and methodologies in ways designed to help customers better understand their data to generate actionable business insights;
- Design and implementation of services enabling data visualization and management reporting enabling business users to segment, drill-down, and filter data; and
- Integration of data insights and predictive models in the real-time decision making processes to drive measurable business impact.

Our Analytics engagements span both project work and longer-term arrangements where EXL provides ongoing analytics modeling and services for a year or more. We utilize domain and industry knowledge related to the business problem being considered to support these Analytics engagements across our various competencies including Data management, Advanced Analytics/AI, Functional, Data-enabled Marketing Solutions and Strategic Data Assets.

Our Analytics services support: (1) retail banking, commercial banking and investment banking and management for the banking and financial services industry; (2) actuarial, claims, informatics, CRM and marketing analysis, medical cost and care management, payment integrity and operational effectiveness in the healthcare industry; (3) marketing and agency management, actuarial, servicing and operations, customer management, and claims and money movement in the insurance industry; and (4) marketing analytics in the retail and media industries.

On July 1, 2018, we completed the acquisition of SCIO pursuant to an Agreement of Merger dated April 28, 2018 (the “Merger Agreement”). SCIO is a health analytics solution and services company serving healthcare organizations including providers, health plans, pharmacy benefit managers, employers, health services and global life sciences companies. SCIO provides Payment Integrity services mainly in the area of claims overpayment and abuse and waste related to healthcare spending. The acquisition of SCIO broadened our spectrum of healthcare capabilities to deliver more complex reimbursement optimization, subrogation as well care and risk and quality management to the healthcare industry. SCIO provides scalable predictive analytic solutions and services that transform data into actionable insights, helping healthcare organizations identify opportunities and prescribe actions to drive operational performance and address the healthcare waste epidemic while improving care quality industry.

Business Strategy

EXL is a business process management company providing operations management and analytics services and is a “Strategic Digital Transformation Partner” for our clients by deploying our Digital Intelligence framework. We help our clients become digitally intelligent by leveraging capabilities across data, advanced analytics, digital operations and domain expertise to deliver business outcomes across customer experience, efficiency and revenue.

Expanding our services in large addressable markets

We continue to focus on the insurance, healthcare and banking industries, which are large markets with high demand. We will also continue to build our client portfolio in Finance and Accounting and within our other business segments in an opportunistic manner. As we can continue to refine our focus, we are pursuing opportunities in other industries. We are uniquely equipped to support clients across every step of the digital transformation value chain with capabilities across Data and Data management, Business intelligence and Analytics, Digital Transformation Consulting, Digital Integration and Operations. Demand for these services is expected to exhibit strong growth in the next several years.

Integrating our capabilities

Our deep domain expertise has been central to our market differentiation. We are also well-positioned as one of the few players in the market with a full suite of analytics, strong operational excellence, technological platforms and digital toolkit to create integrated solutions and services under one brand.

Recruiting, Training, and Retaining the Most Talented Professionals

We have an integrated talent management framework that employs active collaboration between our recruitment, capability development and business human resource functions. We deploy innovative methods to recruit, train and retain our skilled employees. We focus on recruiting the right talent and developing them further on relevant competencies through our learning academies, rigorous promotion standards, client and industry specific training and competitive compensation packages that include incentive-based compensation. We are able to leverage shared resources across our services through personnel who have skillsets applicable to a wide variety of BPM services. We also have specialized experts in various domains, who develop specialization in our chosen industries and subject matters through our training academies. Our employee relations function ensures that we understand the pulse of our employees, and are able to swiftly respond to specific needs and concerns as they arise, through a central team of experts.

Cultivating Long-term Relationships and Expanding our Client Base

We continue to maintain our focus on cultivating long-term client relationships as well as attracting new clients. We believe there are significant opportunities for additional growth within our existing clients, and we seek to expand these relationships by:

- Increasing the depth and breadth of the services we provide across new client business, functions and geographies;
- Offering the full suite of EXL services that includes operations management (including consulting; digital transformation) and analytics; and
- Supporting our clients’ geographic expansion leveraging our global footprint.

We intend to continue building a portfolio of Fortune 500 and Global 2000 companies in our focus industries that have the most complex and diverse processes and, accordingly, stand to benefit significantly from our services. We also intend to cultivate long-term relationships with medium-sized companies in our focus industries leveraging our BPaaS and technology offerings.

Expanding our Global Delivery Footprint and Operational Infrastructure

We intend to further expand and invest in our network of delivery centers to service our clients. In 2019, we expanded our operations centers in India, South Africa and in the Philippines.

Pursuing Strategic Relationships and Acquisitions

We intend to continue making selective acquisitions in our focus industry verticals as well as to add to our capabilities. We consider selective strategic relationships with industry leaders that add new long-term client relationships, enhance the depth and breadth of our services and complement our business strategy. We also pursue select partnerships, alliances or investments that will expand the scope and effectiveness of our services by adding technology assets and intellectual property,

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adding new clients or allowing us to enter new geographic markets. In 2018, we launched our Connected Intelligence Partnership programs to expand our technology and innovation ecosystem to accelerate client business outcomes from digital transformation. The Connected Intelligence program has enhanced our go-to-market opportunities with new programs for emerging innovators and startups, digital technology partners, industry solution partners and alliances and associations to deliver leading digital solutions and services to its clients.

Our Industry

Operations Management

BPM service providers work with clients to transfer their key business processes to reduce costs, improve process quality, handle increased transaction volumes and reduce redundancy. BPM providers can enable organizations to enhance profitability and increase efficiency and reliability, permitting them to concentrate on their core areas of competence. BPM is a long-term strategic commitment for a company that, once implemented, is generally not subject to cyclical spending or information technology budget fluctuations. Increased global demand, cost improvements in international communications and the automation of many business services have created a significant opportunity for BPM providers with offshore delivery capabilities, and many companies are moving select office processes to providers with the capacity to perform these functions from overseas locations. We believe the demand for BPM services will be primarily led by industries that are transaction-driven and that require significant customer interactions.

Analytics

Companies are increasingly looking to BPM service providers to provide a suite of analytics services, including statistical tools, models and techniques to clean, organize and examine structured and unstructured corporate data. This data is then used by companies to generate specific business-related analysis and insights into their business and prospects. The enhanced generation of business data across multiple formats, substantial reduction in data storage costs, growing enterprise demand for data-driven and real-time decision making and availability of sophisticated analytics tools have enabled companies to overcome a local shortage of specialized analytics talent and benefit from global labor markets. BPM service providers who can develop industry-specific analytics expertise are especially well poised to benefit from this global trend.

Sales, Marketing and Client Management

We market our services to our existing and prospective clients through our sales and client management teams, which are aligned by industry verticals and cross-industry domains such as finance and accounting and consulting. Our sales and client management teams operate from the U.S., Europe, Australia and South Africa are supported by our business development teams.

Our sales, marketing and business development teams are responsible for new client acquisitions, public relations, relations with outsourcing advisory companies, analyst relations and rankings, lead generation, knowledge management, content development, campaign management, digital or web presence, brand awareness and participation in industry forums and conferences. As of December 31, 2019, we employed approximately 150 sales, marketing, business development and client management professionals with the majority of them based in either the U.S. or Europe. Our professionals generally have significant experience in business process services, technology, operations, analytics and consulting.

Clients

EXL generated revenues from approximately 470 clients and 480 clients in 2019 and 2018, respectively (with annual revenue exceeding \$50,000 per client). We have won 28 and 50 new clients during 2019 and 2018, respectively.

Our top three, five and ten clients generated 15.2%, 22.0% and 36.1% of our revenues, respectively, in 2019. Our top three, five and ten clients generated 16.4%, 23.7% and 37.2% of our revenues, respectively, in 2018. No client accounted for more than 10% of our total revenues in 2019 or 2018. Our revenue concentration with our top clients remains consistent year-over-year and we continue to develop relationships with new clients to diversify our client base. We believe that the loss of any of our ten largest clients could have a material adverse effect on our financial performance. See “Item 1A. Risk Factors-Risks Related to Our Business-We derive a substantial portion of our revenues from a limited number of clients.”

Our long-term relationships with our clients typically evolve from providing a single, discrete service or process into providing a series of complex, integrated processes across multiple business lines. For operations management services other than consulting, we enter into long-term agreements with our clients with typical initial terms of between three to five years. Consulting engagements have typical terms of six to twelve months. Agreements for Analytics services are either project based or have shorter initial terms, which are typically between one to three years. However, each agreement is individually negotiated with the client.

Competition

Competition in the BPM services industry is intense and growing. See “Item 1A. Risk Factors-Risks Related to Our Business-We face significant competition from U.S.-based and non-U.S.-based BPM and information technology (“IT”) companies and from our clients, who may build shared services centers to perform these services themselves, either in-house, in the U.S. or through offshore groups or other arrangements.” Many companies, including certain of our clients, choose to perform some or all of their customer-facing and back-office processes internally, utilizing their own employees to provide these services as part of their regular business operations. Some companies have moved portions of their in-house customer management functions offshore, including to offshore affiliates. We believe our key advantage over in-house business processes management is that we provide companies the opportunity to focus on their core products and markets while we focus on service delivery and operational excellence. We compete primarily against:

- large global companies with BPM solutions and delivery capabilities in offshore locations, such as Genpact Limited, WNS (Holdings) Limited, Accenture, Cognizant Technology Solutions, Infosys and Tata Consultancy Services;
- niche providers that provide services in a specific geographic market, industry or service area, such as analytics or healthcare; and
- leading accounting and management consulting firms.

We compete against these entities by working to establish ourselves as a service provider with deep industry expertise, strong client relationships, leading industry talent, superior operational and process capabilities, differentiated technology and BPaaS solutions, and sophisticated analytic and consulting capabilities, which enable us to respond rapidly to market trends and the evolving needs of our clients.

Intellectual Property

Our intellectual property consists of proprietary and licensed platforms, software and databases, trade secrets, methodologies and know-how, trademarks, copyrighted software, operating procedures and other materials and patents and pending patent applications. We have numerous registered trademarks and logos registered with the U.S. Patent and Trademark Office and certain foreign jurisdictions and several pending trademark applications, as well as, three issued patents. We consider many of our business processes and implementation methodologies to be trade secrets or proprietary know-how and confidential information. To provide our services, in addition to our own proprietary tools, we use software and data licensed by us or our clients from third parties. We also use SaaS services from third parties pursuant to contracts with us or our clients. In particular, we have developed several strategic partnerships with robotics and process automation software companies to facilitate our offering of automation to our clients.

Clients and business partners sign nondisclosure agreements requiring confidential treatment of our information. Our employees are required to sign work-for-hire and confidentiality covenants as a condition to their employment.

Our technology group and various business lines develop proprietary tools that we deploy to support services for our clients. We typically retain ownership of any pre-existing tools. While working on client engagements, we also often develop new tools or methodologies, including robotics and process automation software or “bots,” and we endeavor to negotiate contracts that give us ownership or licenses to use or demonstrate such tools for other clients.

Information Security and Data Privacy

Overseen by management and our board of directors, we maintain a comprehensive program that focuses on information security, cyber security, data privacy and the protection of our clients’ and their customers’ confidential personal and sensitive information. We have invested in our information security and cyber security posture and protocols to support compliance with our contractual obligations and the laws and regulations governing our activities. These investments include people, processes and technology intended to protect information throughout its life cycle.

EXL focuses on implementing and maintaining cyber security capabilities to identify, protect, detect, respond and recover from cyber threats, incidents and attacks; reduce vulnerabilities and minimize the impact of cyber incidents. We emphasize compliance and institutional governance built upon and supported by policies and processes, tools and technologies, and knowledge and awareness training. EXL takes into account guidance from relevant regulatory and governance bodies, including but not limited to the Cyber Security Framework of the National Institute of Standards and Technology of the U.S. Department of Commerce, in designing controls and policies regarding security for sensitive and confidential information of EXL’s clients, employee, partners, third parties and EXL’s owned products and services. EXL has undertaken measures designed to comply with new privacy regulations, including the European General Data Protection Regulation (EU) 2016/679 (“GDPR”) and the California Consumer Privacy Act (“CCPA”), as well as other national and state laws or regulations.

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According to the needs of our clients as well as the regulatory requirements of the geographies in which we operate, many of our delivery centers are certified related to information security and health and environmental safety, such as the ISO 27001:2013 standard for information security management systems, the ISO 22301:2012 for Business continuity management systems, the ISO 9001:2008 standard for quality management system, the ISO 14001 for environmental management standards and the OHSAS 18001:2007 standard for occupational health and safety management systems. Certain delivery centers and processes are also compliant with HITRUST CSF™ and certified for other similar requirements. Some of our centers in the Philippines and South Africa and certain client processes in other operation centers in India are compliant with the Payment Card Industry Data Security Standard (PCI-DSS) version 3.2 or higher requirements. We engage independent firms to conduct General Controls and business process (SOC1 and SOC2 - Type II) assessments on managed hosting environments that we offer in our Insurance and Healthcare verticals. EXL also engages third parties to conduct vulnerability assessment and penetration testing of its technology environment. For disaster recovery purposes, many of our key technology applications are hosted in ISO 27001 certified, SSAE18 SOC1 compliant Tier 4 data centers that are proactively monitored and managed 24 hours a day.

We have procured from leading technology providers and other third parties a robust, wide area network and international telecommunications capacity to support our global business operations. Our business continuity management plans include redundant locations, network infrastructure, power sources and other utilities to mitigate and manage operational risks as well as redundant, trained talent across our service delivery locations. These plans are documented, as well as tested on a periodic basis.

Employees

As of December 31, 2019, we had a headcount of approximately 31,700 employees, with approximately 21,200 employees based in India and approximately 6,900 employees in the Philippines. We have approximately 2,400 employees in the U.S., 200 employees in the U.K., 200 employees in Colombia, and 400 employees in the Czech Republic, Bulgaria, Romania, and 400 in South Africa and other geographies. None of our employees are unionized. We have never experienced any work stoppages and believe that we enjoy good employee relations.

Hiring and Recruiting

Our employees are critical to the success of our business. Accordingly, we focus on recruiting, training and retaining our professionals. We have developed effective strategies that enable an efficient recruitment process. We have over 110 employees dedicated to recruitment. Some of the strategies we have adopted to increase efficiency in our hiring practices include the utilization of online voice assessments and a centralized hiring center. Our hiring policies focus on identifying high quality employees who demonstrate a propensity for learning, contribution to client services and growth. Candidates must undergo numerous tests and interviews before we extend offers for employment. We also conduct background checks on candidates, including criminal background checks, where permitted and as required by clients or on a sample basis. In addition, where permitted and required for client services, we perform random drug testing on the workforce on a regular basis.

We offer our employees competitive compensation packages that include incentive-based compensation and offer a variety of benefits that vary by facility, including free transport to and from home in certain circumstances, subsidized meals and free access to recreational facilities that are located within some of our operations centers. Our attrition rate for employees who had been with EXL for more than 180 days was 33.2% and 31.8% for the years ended December 31, 2019 and 2018, respectively. As competition in our industry increases, our turnover rate could increase. See “Item 1A. Risk Factors-Risks Related to Our Business-We may fail to attract and retain enough sufficiently trained employees to support our operations, as competition for highly skilled personnel is intense and we experience significant employee turnover rates.”

Capability Development and Training

We maintain a strong focus on capability development, with an emphasis on digital transformation and domain expertise. Our talent development strategy is comprehensive, aligned to overall business strategy. Our talent strategy includes developing expertise around the specific technologies, tools, and frameworks required to successfully execute projects for our clients in a digital economy. We create thought leaders with high industry acumen who are better able to address our clients’ requirements. We also provide a career -linked learning path to our employees from new hires to tenured employees to senior levels of leadership.

Our domain academies focus on building domain expertise through certifications and specialization. These include our Insurance Academy, Travel Academy, Finance and Accounting Academy, Healthcare Academy, Analytics Academy, Utilities Academy, Consulting Academy and Digital Academy. These domain academies focus on achieving excellence and developing skill sets that can be used across the different domains. Our training includes behavioral and functional components to enhance and ensure job readiness as well as also boosting ongoing productivity and effectiveness. We also focus on

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promoting better diversity and inclusion through our training programs. We have a global presence catering to the specific learning requirements of each geography. We provide learning through our blended learning methodology comprising of classroom, on the job coaching and technology led learning.

Corporate Social Responsibility

The world we work and live in is full of diversity and powered by innovation. We believe success in such a world will come through an environment that embraces diversity of thought. We believe that pursuing our corporate social responsibility goals, including charitable and civic activities and environmental, health and safety initiatives, will make us a stronger, more impactful organization to work for and to deliver exceptional results for our clients.

Diversity & Inclusion

Our Diversity & Inclusion (D&I) philosophy is to create an inclusive work environment and leverage diversity to enable the organization to effectively capitalize on the differing views and contributions that each employee brings to the workplace. Nearly our entire workforce is trained on D&I.

We are particularly focused on creating an impact at the senior leadership level. EXL's overall gender diversity is at 38% with over 12,000 female employees across the globe, and our Operating Committee, has 33% gender diversity.

In addition, we maintain a supplier diversity program in the United States designed to provide opportunities for qualified diverse businesses.

Women in Leadership

EXL is committed to providing a supportive working environment and career opportunities for our female employees.

EXL has several programs to promote career advancement, including leadership development for women at the mid to senior level, a separate program to improve the retention and engagement of new mothers through employee friendly parental leave and similar policies, and our WE (Women at EXL) platform, which is designed to enable women at EXL advance their career and achieve professional growth through discussion, collaboration, networking, training, development and mentorship opportunities.

Charitable and Community Activities

EXL finds meaningful ways to help the communities in which we operate. We contribute to positive social change by engaging in charitable programs to help transform lives. On our own and in partnership with our clients, we support education initiatives, disaster relief efforts, and global health initiatives. These programs align with the expectations clients have of service providers as well as benefit our other stakeholders.

Environmental, Health and Safety

We strive to continuously improve in the area of environmental, health and safety initiatives ("EHS"), with a focus on reducing our carbon footprint, energy conservation, waste minimization, and green infrastructure and operations. We believe that these measures will also help us in sustainable development efforts. Where practical, we seek to integrate EHS with our business activities, focusing on conducting our activities in an environmentally responsible manner and ensuring the health and safety of the Company's employees, contractors, customers, visitors and the communities where the Company operates.

Regulation

Our operations sometimes are subject to rules, regulations and statutes in the countries where we have operations and where we deliver services as a result of the diverse and complex nature of our service offerings. More often, however, our clients contractually require that we comply with certain rules and regulations applicable to their specific industries.

We are one of the few service providers that can provide third-party administrator insurance services from India and the Philippines and are currently able to provide such services in the U.S. for 49 states and 48 states (including the District of Columbia), respectively. Additionally, our subsidiary in the Philippines is able to provide utilization review services in the U.S. for 43 states (including the District of Columbia). Further, through domestic subsidiaries, we are licensed or otherwise eligible to provide third-party administrator services in all states within the U.S. as well as utilization review, insurance

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adjuster, and insurance producer services in select states. We are required to maintain licenses in various jurisdictions or require certain categories of our professionals to be individually licensed in service areas such as debt collection, utilization review, workers' compensation utilization review, insurance adjuster, and telemarketing services. Our facilities in the Philippines as well as one domestic subsidiary are accredited by the Utilization Review Accreditation Commission (URAC) and National Committee for Quality Assurance (NCQA), both leading healthcare and education accreditation organizations. We continue to obtain licenses and accreditations required from time to time by our business operations.

Our operations are also subject to compliance with a variety of other laws, including U.S. federal and state regulations that apply to certain portions of our business such as the Fair Credit Reporting Act, the Foreign Corrupt Practices Act, the Federal Trade Commission Act, the Gramm-Leach-Bliley Act, the Health Insurance Portability and Accountability Act of 1996, the Health Information Technology for Economics and Clinical Health Act of 2009, GDPR and the UK Bribery Act- as well as state and local laws, such as the CCPA. We also must comply with applicable regulations relating to health, financial and other personal information that we handle as part of our services.

We benefit from tax relief provided by laws and regulations in India and the Philippines from time to time. Regulation of our business by the Indian government affects us in several ways. During the last several years, we either established or acquired new centers that are eligible for tax benefits under the Special Economic Zones Act, 2005 (the "SEZ Act"). The SEZ Act introduced a 15-year tax holiday scheme for operations established in designated special economic zones ("SEZs"). Under the SEZ Act, qualifying operations are eligible for a deduction from taxable income equal to (i) 100% of their export profits derived for the first five years from the commencement of operations; (ii) 50% of such export profits for the next five years; and (iii) 50% of the export profits for a further five years, subject to satisfying certain capital investment requirements. The SEZ Act provides, among other restrictions, that this holiday is not available to operations formed by splitting up or reconstructing existing operations or transferring existing plant and equipment (beyond a prescribed limit) to new SEZ locations. We anticipate establishing additional operations centers in SEZs or other tax advantaged locations in the future. See "Item 1A - Risk Factors - Risks related to the International nature of our business - Our financial condition could be negatively affected if foreign governments introduce new legislation, reduce or withdraw tax benefits and other incentives currently provided to companies within our industry or if we are not eligible for these benefits."

We also benefitted from a corporate tax holiday in the Philippines for some of our operations centers established there over the last several years. The Company registered with the Philippines Economic Zone Authority ("PEZA") and is therefore eligible for income tax exemption for four years. This exemption incentive may be extended in certain instances upon fulfillment of certain conditions. Following the expiry of the tax exemption, income generated from centers in the Philippines will be taxed at the prevailing annual tax rate.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The SEC maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically through the EDGAR System. You may access the information filed by us with the SEC by visiting its website.

We also maintain a website at <http://www.exlservice.com>. Information on our website does not constitute a part of, nor is it incorporated in any way, into this Form 10-K or any other report we file with or furnish to the SEC. We make available, free of charge, on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. Our website also includes announcements of investor conferences and events, information on our business strategies and results, corporate governance information, and other news and announcements that investors might find useful or interesting.

ITEM 1A. Risk Factors

Risks Related to Our Business

We earn a substantial portion of our revenues from a limited number of clients.

We have earned and believe that we will continue to earn in the near future or foreseeable a substantial portion of our total revenues from a limited number of large clients. The loss of or financial difficulties at any of our large clients could have a material adverse effect on our business, results of operations, financial condition and cash flows. Moreover, the loss of a major customer could also impact our reputation in the market, making it more difficult to attract and retain customers more generally.

Our results of operations could be adversely affected by economic and political conditions and the effects of these conditions on our clients' businesses and levels of business activity.

Global economic and political conditions affect our clients' businesses and the markets they serve, which are increasingly becoming more interdependent. The domestic and international capital and credit markets have been experiencing volatility and disruption for the past several years, resulting in uncertainty in the financial markets in general, which includes companies in the banking, financial services, healthcare and insurance industries to which we provide services. Although there has been recent improvement in general economic conditions in these industries, there can be no assurance that the economic environment will continue to improve. Our business largely depends on continued demand for our services from clients and potential clients in these industries. If there is a significant consolidation in these industries or a decrease in growth due to any adverse development or consolidation in other industry verticals on which we focus, such events could materially reduce the demand for our services and negatively affect our revenue and profitability. In addition, we currently earn, and are likely to continue to earn, a significant portion of our revenues from clients located in the U.S. The U.S. economy has weakened in late 2019 and may continue to do so in early 2020 due to the impact of potential trade disputes with China or other countries, including related to tariffs and softening investment spending. Any resultant decrease in business and consumer spending, could result in a decrease in demand for our services, particularly our analytics and consulting services, thus reducing our revenues. Weakness in the U.S. labor market could also adversely affect the demand for our services. Other developments in response to economic events, such as restructurings or reorganizations, particularly involving our clients, could also cause the demand for our services to decline.

Market disruptions may limit our ability to access financing or increase our cost of financing to meet liquidity needs, and affect the ability of our customers to use credit to purchase our services or to make timely payments to us, resulting in adverse effects on our financial condition, results of operations and cash flows.

Our client contracts contain certain termination and other provisions that could have an adverse effect on our business, results of operations, financial condition and cash flows.

Consistent with industry practice, most of our client contracts may be terminated by our clients without cause and do not commit our clients to provide us with a specific volume of business. Any failure to meet a client's expectations could result in a cancellation or non-renewal of a contract or a decrease in business provided to us. We may not be able to replace any client that elects to terminate or not renew its contract with us, which would reduce our revenues. The loss of or financial difficulties at any of our large clients would have a material adverse effect on our business, results of operations, financial condition and cash flows.

A number of our contracts allow the client, in certain limited circumstances, to request a benchmark study comparing our pricing and performance with that of an agreed list of other service providers for comparable services. Based on the results of the study and depending on the reasons for any unfavorable variance, we may be required to make improvements in the services we provide or reduce the pricing for services on a prospective basis to be performed under the remaining term of the contract or our client could elect to terminate the contract, which could have an adverse effect on our business, results of operations, financial condition and cash flows. Many of our contracts contain provisions that would require us to pay penalties to our clients and/or provide our clients with the right to terminate the contract if we do not meet pre-agreed service level requirements or if we do not provide certain productivity benefits. Failure to meet these requirements or accurately estimate the productivity benefits could result in the payment of significant penalties to our clients which in turn could have a material adverse effect on our business, results of operations, financial condition and cash flows. Some of our contracts with clients specify that if a change of control of our company occurs during the term of the contract, the client has the right to terminate the contract. These provisions may result in our contracts being terminated if there is such a change in control, resulting in a potential loss of revenues. In addition, these provisions may act as a deterrent to any attempt by a third party to acquire our company.

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We may fail to attract and retain enough sufficiently trained employees to support our operations, as competition for highly skilled personnel is intense and we experience significant employee turnover rates, which may result in loss of revenue and an inability to expand our business.

Our success depends to a significant extent on our ability to attract, hire, train and retain qualified employees, including our ability to attract employees with needed skills in the geographic areas in which we operate. Our industry, including us, experiences high employee turnover. There is significant competition for professionals with skills necessary to perform the services we offer to our clients. Increased competition for these professionals could have an adverse effect on us. A significant increase in the turnover rate among our employees, particularly among our higher skilled workforce, would increase our recruiting and training costs and decrease our operating efficiency, productivity and profit margins, and could lead to a decline in demand for our services. High turnover rates generally do not impact our revenues as we factor the attrition rate into our pricing models by maintaining additional employees for each process. However, high turnover rates do increase our cost of revenues and therefore impact our profit margins due to higher recruitment, training and retention costs. High employee turnover increases training, recruitment and retention costs because we must maintain larger hiring, training and human resources departments and it also increases our operating costs due to having to reallocate certain business processes among our operations centers where we have access to the skilled workforce needed for our business. These additional costs could have a material adverse effect on our results of operations and cash flows.

If we are unable to attract and retain highly-skilled technical personnel, our ability to effectively lead our current projects and develop new business could be jeopardized, and our business, results of operations and financial condition could be adversely affected.

We often have a long selling cycle for our operations management services that requires significant funds and management resources and a long implementation cycle that requires significant resource commitments.

We often have a long selling cycle for our operations management services, which requires significant investment of capital, resources and time by both our clients and us. Before committing to use our services, potential clients require us to expend substantial time and resources educating them as to the value of our services, including testing our services for a limited period of time, and assessing the feasibility of integrating our systems and processes with theirs. Our clients then evaluate our services before deciding whether to use them. Therefore, our selling cycle, which generally ranges from six to eighteen months, is subject to many risks and delays over which we have little or no control, including our clients' decision to choose alternatives to our services (such as other providers or in-house offshore resources) and the timing of our clients' budget cycles and approval processes. In addition, we may not be able to successfully conclude a contract after the selling cycle is complete.

Implementing our services involves a significant commitment of resources over an extended period of time from both our clients and us. Our clients may also experience delays in obtaining internal approvals or delays associated with technology or system implementations, thereby delaying further the implementation process. Our clients and future clients may not be willing or able to invest the time and resources necessary to implement our services, and we may fail to close sales with potential clients to which we have devoted significant time and resources. These factors could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Once we are engaged by a client, it may take us several months before we start to recognize significant revenues.

When we are engaged by a client after the selling process for our operations management services, it takes from four to six weeks to integrate the client's systems with ours, and from three months to six months thereafter to build our services to the client's requirements and perform any necessary transformation initiatives. Depending on the complexity of the processes being implemented, these time periods may be significantly longer. Implementing processes can be subject to potential delays similar to certain of those affecting the selling cycle. Therefore, we do not recognize significant revenues until after we have completed the implementation phase.

We generally enter into long-term contracts with our clients for our operations management services, and our failure to accurately estimate the resources and time required for our contracts may negatively affect our revenues, cash flows and profitability.

The initial terms of our operations management contracts typically range from three to five years. In many of our operations management contracts we commit to long-term and other pricing structures (such as full-time equivalent-based pricing, fixed-price arrangements, and output- and outcome-based pricing) with our clients and therefore bear the risk of cost overruns, completion delays, resource requirements, wage inflation and adverse movements in exchange rates in connection with these contracts. If we fail to estimate accurately the resources and time required for a contract, potential productivity benefits over time, future wage

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inflation rates or currency exchange rates (or fail to accurately hedge our currency exchange rate exposure) or if we fail to complete our contractual obligations within the contracted timeframe, our revenues, cash flows and profitability may be negatively affected.

Consistency in our revenues from period to period depends in part on our ability to reflect the changing demands and needs of our existing and potential clients. If we are unable to adjust our pricing terms or the mix of products and services we provide to meet the changing demands of our clients and potential clients, our business, results of operations, financial condition and cash flows may be adversely affected.

A significant portion of our contracts use a pricing model that provides for hourly or annual billing rates. Industry pricing models are evolving and clients increasingly request transaction-based, outcome-based or other pricing models. If we make inaccurate assumptions for contracts with such alternative pricing models, our profitability may be negatively affected. If we are unable to adapt our operations to evolving pricing protocols, our results of operations may be adversely affected or we may not be able to offer pricing that is attractive relative to our competitors.

In addition, for the services we provide to our clients, the revenues and income from such services may decline or vary as the type and volume of services we provide under those contracts changes over time, including as a result of a shift in the mix of products and services we provide. Furthermore, our clients, some of which have experienced significant and adverse changes in their prospects, substantial price competition and pressures on their profitability, have in the past and may in the future demand price reductions, automate some or all of their processes or change their operations management strategy by moving more work in-house or to other providers, any of which could reduce our profitability. Any significant reduction in or the elimination of the use of the services we provide to any of our clients, or any requirement to lower our prices, would harm our business.

Our profitability will suffer if we are not able to price our services appropriately or manage our asset utilization levels.

Our profitability is largely a function of the efficiency with which we utilize our assets, in particular our people and our operations centers, and the pricing that we are able to obtain for our services. Our asset utilization levels are affected by a number of factors, including our ability to transition employees from completed projects to new assignments, attract, train and retain employees, forecast demand for our services (including potential client terminations or reductions in required resources) and maintain an appropriate headcount in each of our locations, as well as our need to dedicate resources to employee training and development and other typically non-chargeable activities. The prices we are able to charge for our services are affected by a number of factors, including our clients' perceptions of our ability to add value through our services, substantial price competition, introduction of new services or products by us or our competitors, our ability to accurately estimate, attain and sustain revenues from client engagements, our ability to estimate resources for long-term pricing, margins and cash flows for long-term contracts and general economic and political conditions. Therefore, if we are unable to appropriately price our services or manage our asset utilization levels, there could be a material adverse effect on our business, results of operations, cash flows and financial condition.

Our projects based analytics and consulting services are cyclical involving short-term contracts.

Our projects based analytics and consulting services are cyclical and can be significantly affected by variations in business cycles. Changes in the deadlines or the scope of work required for compliance with the requirements of legislation applicable to our clients could curtail significantly those service offerings.

In addition, our projects based analytics and consulting services consists of contracts with terms generally not exceeding one year and may not produce ongoing or recurring business for us once the project is completed. These contracts also usually contain provisions permitting termination of the contract after a short notice period. The short-term nature and specificity of these projects could lead to material fluctuations and uncertainties in the revenues generated from providing analytics and consulting services.

Our operating results may experience significant variability and as a result it may be difficult for us to make accurate financial forecasts.

Our operating results may vary significantly from period to period. Although our existing agreements with original terms of three or more years provide us with a relatively predictable revenue base for a substantial portion of our business, the long selling cycle for our services and the budget and approval processes of prospective clients make it difficult to predict the timing of entering into definitive agreements with new clients. The timing of revenue recognition under new client agreements also varies depending on when we complete the implementation phase with new clients. The completion of implementation varies significantly based upon the complexity of the processes being implemented.

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Our period-to-period results have in the past and may also in the future fluctuate due to other factors, including client losses, delays or failure by our clients to provide anticipated business, variations in employee utilization rates resulting from changes in our clients' operations, delays or difficulties in expanding our operations centers and infrastructure (including hiring new employees or constructing new operations centers), changes to our pricing structure or that of our competitors, currency fluctuations, seasonal changes in the operations of our clients and other events identified in this Annual Report on Form 10-K. Our revenues are also affected by changes in pricing under our contracts at the time of renewal or by pricing under new contracts. In addition, most of our contracts do not commit our clients to provide us with a specific volume of business. Further, as we increase our capabilities utilizing technology service platforms and other software-based services, we expect that revenues from such services will continue to grow in proportion to our total revenues. Revenues from annual maintenance and support contracts for our software platforms provide us with a relatively predictable revenue base whereas revenues from new license sales and implementation projects have a long selling cycle and it is difficult to predict the timing of when such new contracts will be signed which may lead to fluctuations in our short term revenues. All these factors may make it difficult to make accurate financial forecasts or replace anticipated revenues that we do not receive as a result of delays in implementing our services or client losses. If our actual results do not meet any estimated results that we announce, or if we underperform market expectations as a result of such factors, trading prices for our common stock could be adversely affected.

Our senior management team is critical to our continued success and the loss of one or more members of our senior management team could harm our business.

Our future success substantially depends on the continued services and performance of the members of our management team and other key employees possessing technical and business capabilities, including industry expertise, that are difficult to replace. Specifically, the loss of the services of our Vice Chairman and Chief Executive Officer could seriously impair our ability to continue to manage and expand our business. There is intense competition for experienced senior management and personnel with technical and industry expertise in the industry in which we operate, and we may not be able to retain these officers or key employees. Although we have entered into employment and non-competition agreements with all of our executive officers, certain terms of those agreements may not be enforceable and in any event these agreements do not ensure the continued service of these executive officers.

In addition, we currently do not maintain "key person" insurance covering any member of our management team. The loss of any of our key employees, particularly to competitors, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our inability to manage our rapid infrastructure and personnel growth effectively could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Since we were founded in April 1999, we have experienced rapid growth and significantly expanded our operations, and that growth has continued in recent years as well. We have several operations centers in India, the U.S., the Philippines and an operations center in each of the United Kingdom, South Africa, Colombia, Bulgaria, Romania, and the Czech Republic. Further, we have acquired multiple regional offices in the U.S. as part of our acquisitions. Our headcount has increased significantly over the past several years. We expect to develop and improve our internal systems in the locations where we operate in order to address the anticipated continued growth of our business. We are also continuing to look for operations centers at additional locations outside of our current operating geographies. We believe expanding our geographic base of operations will provide higher value to our clients by decreasing the risks of operating from a single country (including potential shortages of skilled employees, increases in wage costs during strong economic times and currency fluctuations), while also giving our clients access to a wider talent pool and establishing a base in countries that may be competitive in the future. However, we may not be able to effectively manage our infrastructure and employee expansion, open additional operations centers or hire additional skilled employees as and when they are required to meet the ongoing needs of our clients, and we may not be able to develop and improve our internal systems. We also need to manage cultural differences between our employee populations and that may create a risk for employment law claims. Our inability to execute our growth strategy, to ensure the continued adequacy of our current systems or to manage our expansion effectively could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may engage in strategic acquisitions or transactions, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

As part of our business strategy, we intend to continue to selectively consider acquisitions or investments, some of which may be material. Through the acquisitions we pursue, we may seek opportunities to expand the scope of our existing services, add new clients or enter new geographic markets. There can be no assurance that we will successfully identify suitable candidates in

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the future for strategic transactions at acceptable prices, have sufficient capital resources to finance potential acquisitions or be able to consummate any desired transactions. Our failure to close transactions with potential acquisition targets for which we have invested significant time and resources could have a material adverse effect on our financial condition and cash flows.

Acquisitions, including completed acquisitions, involve a number of risks, including diversion of management's attention, ability to finance the acquisition on attractive terms, failure to retain key personnel or valuable customers, legal liabilities and the need to amortize acquired intangible assets, any of which could have a material adverse effect on our business, results of operations, financial condition and cash flows. Future acquisitions may also result in the incurrence of indebtedness or the issuance of additional equity securities.

The intellectual property of an acquired business may be an important component of the value that we agree to pay for such a business. Although we conduct due diligence in connection with each of our acquisitions, such acquisitions are subject to the risks that the acquired business may not own the intellectual property that we believe we are acquiring, that the intellectual property is dependent upon licenses from third parties, that the acquired business infringes upon the intellectual property rights of others or that the technology does not have the acceptance in the marketplace that we anticipated.

We could also experience financial or other setbacks if transactions encounter unanticipated problems, including problems related to execution, integration or underperformance relative to prior expectations. Our management may not be able to successfully integrate any acquired business into our operations or maintain our standards, controls and policies, which could have a material adverse effect on our business, results of operations and financial condition. Consequently, any acquisition we complete may not result in long-term benefits to us or we may not be able to further develop the acquired business in the manner we anticipated.

Following the completion of some acquisitions, we may have to rely on the seller to provide administrative and other support, including financial reporting and internal controls, and other transition services to the acquired business for a period of time. There can be no assurance that the seller will do so in a manner that is acceptable to us.

We may not be able to realize the entire book value of goodwill and other intangible assets from acquisitions.

We periodically assess our goodwill and intangible assets to determine if they are impaired and we monitor for impairment of goodwill relating to all acquisitions. Goodwill is not amortized but is tested for impairment at least once on an annual basis in the fourth quarter of each year, based on a number of factors including operating results, business plans and future cash flows. Impairment testing of goodwill may also be performed between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of goodwill below its carrying amount. We perform a quantitative test to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In the event that the carrying amount of goodwill is impaired, any such impairment would be charged to earnings in the period of impairment. Since this involves use of critical accounting estimates, we cannot assure you that future impairment of goodwill will not have a material adverse effect on our business, financial condition or results of operations.

If we are unable to collect our receivables from, or bill our unbilled services to, our clients, our results of operations and cash flows could be adversely affected.

Our business depends on our ability to successfully obtain payment from our clients for work performed. We evaluate the financial condition of our clients and usually bill and collect on relatively short cycles. We maintain allowances against receivables and unbilled services. Actual losses on client balances could differ from those that we currently anticipate and, as a result, we might need to adjust our allowances. We might not accurately assess the creditworthiness of our clients. Macroeconomic conditions, such as any domestic or global credit crisis and disruption or the global financial system, could also result in financial difficulties for our clients, including limited access to the credit markets, insolvency or bankruptcy, and, as a result, could cause clients to delay payments to us, request modifications to their payment arrangements that could increase our receivables balance, or default on their payment obligations to us. Timely collection of client balances also depends on our ability to complete our contractual commitments and bill and collect our contracted revenues. If we are unable to meet our contractual requirements, we might experience delays in collection of and/or be unable to collect our client balances, and if this occurs, our results of operations and cash flows could be adversely affected. In addition, if we experience an increase in the time to bill and collect for our services, our cash flows could be adversely affected.

Employee wage increases may prevent us from sustaining our competitive advantage and may reduce our profit margin.

Our most significant costs are the salaries and related benefits of our operations staff and other employees. For example, wage costs in India and the Philippines have historically been significantly lower than wage costs in the U.S. and Europe for

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comparably skilled professionals, which has been one of our competitive advantages. However, because of rapid economic growth in India, increased demand for outsourcing services from India and increased competition for skilled employees in India, wages for comparably skilled employees in India are increasing at a faster rate than in the U.S. and Europe, which may reduce this competitive advantage. We may need to increase the levels of employee compensation more rapidly than in the past to remain competitive in attracting and retaining the quality and number of employees that our business requires. Wages are generally higher for employees performing analytics services than for employees performing operations management services. As the scale of our analytics services increases, wages as a percentage of revenues will likely increase. To the extent that we are not able to control or share wage increases with our clients, wage increases may reduce our margins and cash flows. We will attempt to control such costs by our efforts to add capacity in locations where we consider wage levels of skilled personnel to be satisfactory, but we may not be successful in doing so.

We face significant competition from U.S.-based and non-U.S.-based BPM and IT companies and from our clients, who may build shared services centers to perform these services themselves, either in-house, in the U.S. or through offshore groups or other arrangements.

The market for outsourcing services is highly competitive, and we expect competition to intensify and increase from a number of sources. We believe that the principal competitive factors in our markets are breadth and depth of process expertise, knowledge of industries served, service quality, the ability to attract, train and retain qualified people, compliance rigor, global delivery capabilities, price and sales and client management capabilities. We also face competition from non-U.S.-based outsourcing and IT companies (including those in the U.K. and India) and U.S.-based outsourcing and IT companies. Further, a client may choose to use its own internal resources rather than engage an outside firm to perform the types of services we provide. In addition, the trend toward offshore outsourcing, international expansion by foreign and domestic competitors and continuing technological changes, such as cloud computing, will result in new and different competition for our services.

These competitors may include entrants from the communications, software and data networking industries or entrants in geographic locations with lower costs than those in which we operate. Some of these existing and future competitors have greater financial, personnel and other resources, a broader range of service offerings, greater technological expertise, more recognizable brand names and more established relationships in industries that we currently serve or may serve in the future. In addition, some of our competitors may enter into strategic relationships or mergers or acquisitions with larger, more established companies in order to increase their ability to address client needs, or enter into similar arrangements with potential clients. The trend in multi-vendor relationships has been growing, which could reduce our revenues to the extent that we are required to modify the terms of our relationship with clients or that clients obtain services from other vendors. Increased competition, our inability to compete successfully against competitors, pricing pressures or loss of market share could result in reduced gross margins, which could harm our business, results of operations, financial condition and cash flows.

We expect competition to intensify in the future as more companies enter our markets. Increased competition may result in lower prices and volumes, higher costs for resources, especially people, and lower profitability. We may not be able to supply clients with services that they deem superior and at competitive prices and we may lose business to our competitors. Any inability to compete effectively would adversely affect our business, results of operations, financial condition and cash flows.

We may disrupt our clients' operations as a result of inadequate service or other factors, including telecommunications or technology downtime or interruptions.

The services we provide are often critical to our clients' businesses, and any failure to provide those services could result in a reduction in revenues or a claim for substantial damages against us, regardless of whether we are responsible for that failure. Most of our agreements with clients contain service level and performance requirements, including requirements relating to the quality of our services. Failure to consistently meet service requirements of a client or errors made by our employees in the course of delivering services to our clients could disrupt the client's business and result in a reduction in revenues or a claim for damages against us.

Our business is dependent on the secure and reliable operation of controls within our and our clients' information systems and processes, whether operated or executed by our clients themselves or by us in connection with our provision of services to them. Although we believe we take adequate measures to safeguard against system-related and other fraud, there can be no assurance that we would be able to prevent fraud or even detect them on a timely basis, particularly where it relates to our clients' information systems which are not managed by us. We could incur certain liabilities if a process we manage for a client were to result in internal control failures or processing errors, or impair our client's ability to comply with its own internal control requirements.

Our dependence on our offshore operations centers requires us to maintain active voice and data communications among our operations centers, our international technology hubs and our clients' offices. Although we maintain redundant facilities and

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communications links, disruptions could result from, among other things, technical breakdowns, computer glitches and viruses and weather conditions. We also depend on certain significant vendors for facility storage and related maintenance of our main technology equipment and data at those technology hubs, as well as for some of the third party technology and platforms we sometimes use to deliver our services. Any failure by these vendors to perform those services, any temporary or permanent loss of our equipment or systems, or any disruptions to basic infrastructure like power and telecommunications could impede our ability to provide services to our clients, have a negative impact on our reputation, cause us to lose clients, reduce our revenues and cash flows and harm our business.

Our contractual limitations on liability with our clients and third parties may not be enforceable.

Under most of our agreements with our clients, our liability for breach of certain of our obligations is generally limited to actual damages suffered by the client and is typically capped at the fees paid or payable to us for a period of time under the relevant agreement. These limitations and caps on liability may be unenforceable or otherwise may not protect us from liability for damages. In addition, certain liabilities, such as claims of third parties for which we may be required to indemnify our clients, including intellectual property infringement claims, or liability for fraud or breaches of confidentiality or notification costs relating to data breaches, are generally not limited under those agreements. Because our agreements are governed by laws of multiple jurisdictions, the interpretation of certain provisions, and the availability of certain defenses to us, may vary, which, in certain circumstances, may contribute to uncertainty as to the scope of our potential liability.

Our business could be negatively affected if we incur legal liability, including with respect to our contractual obligations, in connection with providing our solutions and services.

If we fail to meet our contractual obligations or otherwise breach obligations to our clients or vendors, we could be subject to legal liability. We may enter into non-standard agreements because we perceive an important economic opportunity by doing so or because our personnel did not adequately adhere to our guidelines. In addition, with respect to our client contracts, the contracting practices of our competitors may cause contract terms and conditions that are unfavorable to us to become standard in the marketplace. If we cannot or do not perform our obligations with clients or vendors, we could face legal liability and our contracts might not always protect us adequately through limitations on the scope and/or amount of our potential liability. If we cannot, or do not, meet our contractual obligations to provide solutions and services to clients, and if our exposure is not adequately limited through the enforceable terms of our agreements, we might face significant legal liability and our business could be adversely affected. Similarly, if we cannot, or do not, meet our contractual obligations with vendors, such as licensors, the vendors may have the right to terminate the contract, in which case we may not be able to provide client solutions and services dependent on the products or services provided to us by such contracts.

Our business could be materially and adversely affected if we do not protect our intellectual property or if our services are found to infringe on the intellectual property of others.

Our success depends in part on certain methodologies, practices, tools and technical expertise we utilize in providing our services. We engage in designing, developing, implementing and maintaining applications and other proprietary materials. In order to protect our rights in these various materials, we may seek protection under trade secret, patent, copyright and trademark laws. We also generally enter into confidentiality and nondisclosure agreements with our clients and potential clients, and third party vendors, and seek to limit access to and distribution of our proprietary information. For our employees and independent contractors, we generally require confidentiality and work-for-hire agreements. These measures may not prevent misappropriation or infringement of our intellectual property or proprietary information and a resulting loss of competitive advantage. Additionally, we may not be successful in obtaining or maintaining patents or trademarks for which we have applied.

We may be unable to protect our intellectual property and proprietary technology effectively, which may allow competitors to duplicate our technology and products and may adversely affect our ability to compete with them. To the extent that we do not protect our intellectual property effectively through patents or other means, other parties, including former employees, with knowledge of our intellectual property may leave and seek to exploit our intellectual property for their own or others' advantage. We may not be able to detect unauthorized use and take appropriate steps to enforce our rights, and any such steps may not be successful. Infringement by others of our intellectual property, including the costs of enforcing our intellectual property rights, may have a material adverse effect on our business, results of operations, financial condition and cash flows.

In addition, competitors or others may allege that our systems, processes, marketing, data usage or technologies infringe on their intellectual property rights, including patents. Non-practicing entities may also bring baseless, but nonetheless costly to defend, infringement claims. We could be required to indemnify our clients if they are sued by a third party for intellectual property infringement arising from materials that we have provided to the clients in connection with our services and deliverables. We may not be successful in defending against such intellectual property claims or in obtaining licenses or an agreement to resolve any

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intellectual property disputes. Given the complex, rapidly changing and competitive technological and business environment in which we operate, and the potential risks and uncertainties of intellectual property-related litigation, we cannot provide assurances that a future assertion of an infringement claim against us or our clients will not cause us to alter our business practices, lose significant revenues, incur significant license, royalty or technology development expenses, or pay significant monetary damages or legal fees and costs. Any such claim for intellectual property infringement may have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may not be fully insured for all losses we may incur.

We could be sued directly for claims that could be significant, such as claims related to breaches of privacy or network security, infringement of intellectual property rights, violation of wage and hour laws, or systemic discrimination, and our liability under our contracts may not fully limit or insulate us from those liabilities. Although we have general liability insurance coverage, including coverage for errors or omissions, cyber security incidents, property damage or loss and breaches of privacy and network security, that coverage may not continue to be available on reasonable terms or in sufficient amounts to cover one or more large claims, and our insurers may disclaim coverage as to any future claim. Insurance is not available for certain types of claims, including patent infringement, violation of wage and hour laws, failure to provide equal pay in the U.S., and our indemnification obligations to our clients based on employment law. The successful assertion of one or more large claims against us that are excluded from our insurance coverage or exceed available insurance coverage, or changes in our insurance policies (including premium increases, the imposition of large deductible or co-insurance requirements, or our insurers' disclaimer of coverage as to future claims), could have a material adverse effect on our business, results of operations, financial condition and cash flows.

New and changing laws, corporate governance and public disclosure requirements add uncertainty to our compliance policies and increase our costs of compliance.

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank"), other SEC regulations, rules and regulations of the Consumer Financial Protection Bureau, Public Company Accounting Oversight Board, and the NASDAQ Global Select Market, and generally accepted accounting principles issued by FASB can create uncertainty for companies like ours. These laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such corporate governance standards.

In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting and our external auditors' audit of that assessment requires the commitment of significant financial and managerial resources. We consistently assess the adequacy of our internal controls over financial reporting, remediate any control deficiencies that may be identified, and validate through testing that our controls are functioning as documented. Internal control over financial reporting has inherent limitations, including human error, sample-based testing, the possibility that controls could be circumvented or become inadequate because of changed conditions, and fraud. Because of these inherent limitations, internal control over financial reporting might not prevent or detect all misstatements or fraud. While we do not anticipate any internal control failures, if we cannot maintain effective internal controls or if management or our independent auditor fail in the future to provide us with an unqualified report as to the adequacy and effectiveness, respectively, of our internal controls over financial reporting for future year ends, it could result in adverse consequences to us, including, but not limited to, a loss of investor confidence in the reliability of our financial statements, which could cause the market price of our stock to decline.

We are committed to maintaining high standards of corporate governance and public disclosure, and our efforts to comply with evolving laws, regulations and standards in this regard have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In addition, the laws, regulations and standards regarding corporate governance may make it more difficult for us to obtain director and officer liability insurance. Further, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with their performance of duties. As a result, we may face difficulties attracting and retaining qualified board members and executive officers, which could harm our business. If we fail to comply with new or changed laws, regulations or standards of corporate governance, our business and reputation may be harmed.

Failure to adhere to the regulations or accreditation or licensing standards that govern our business could have an adverse impact on our operations.

Our clients' business operations are often subject to regulation and accreditation and licensing standards, and our clients may require that we perform our services in a manner that will enable them to comply with applicable regulations or accreditations or licensing standards. Our clients are located around the world, and the laws and regulations that apply include, among others, United States federal laws such as the Gramm-Leach-Bliley Act and the Health Insurance Portability and Accountability Act, the Health Information Technology for Economic and Clinical Health Act, state laws on third party administration services, utilization review services, telemarketing services or state laws on debt collection in the United States and the Financial Services Act in the United Kingdom as well as similar consumer protection laws in other countries in which our clients' customers are based. Failure to perform our services in a manner that complies with any such requirements could result in breaches of contracts with our clients. In addition, we are required under various laws to obtain and maintain accreditations, permits and/or licenses for the conduct of our business in all jurisdictions in which we have operations, including India, and, in some cases, where our clients receive our services, including the United States and Europe. If we do not maintain our accreditations, licenses or other qualifications to provide our services or if we do not adapt to changes in legislation or regulation, we may have to cease operations in the relevant jurisdictions and may not be able to provide services to existing clients or be able to attract new clients. In addition, we may be required to expend significant resources in order to comply with laws and regulations in the jurisdictions mentioned above. Any failure to abide by regulations relating either to our business or our clients' businesses may also, in some limited circumstances, result in civil fines and criminal penalties for us. Any such ceasing of operations or civil or criminal actions may have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may face difficulties in delivering complex and large projects for our clients that could cause clients to discontinue their work with us, which in turn could harm our business.

We have been expanding the nature and scope of our engagements. Our ability to effectively offer a wider breadth of end-to-end business services depends on our ability to attract existing or new clients to these expanded service offerings. To obtain engagements for such complex and large projects, we also are more likely to compete with large, well-established international consulting firms, resulting in increased competition and marketing costs. Accordingly, we cannot be certain that our new service offerings will effectively meet client needs or that we will be able to attract existing and new clients to these expanded service offerings. The increased breadth of our service offerings may result in larger and more complex projects with our clients. This will require us to establish closer relationships with our clients and a thorough understanding of their operations. Our ability to establish such relationships will depend on a number of factors, including the proficiency of our employees and management. Our failure to deliver services that meet the requirements specified by our clients could result in termination of client contracts, and we could be liable to our clients for significant penalties or damages. Larger projects may involve multiple engagements or stages, and there is a risk that a client may choose not to retain us for additional stages or may cancel or delay additional planned engagements. These terminations, cancellations or delays may result from factors that have little or nothing to do with the quality of our services, such as the business or financial condition of our clients or the economy generally. Such cancellations or delays make it difficult to plan for project resource requirements and inaccuracies in such resource planning and allocation may have a negative impact on our profitability and cash flows.

We may not be able to service our debt or obtain additional financing on competitive terms.

On October 1, 2018, the Company entered into an investment agreement with Orogen Echo LLC (the "Purchaser"), an affiliate of The Orogen Group LLC, relating to the issuance to the Purchaser of \$150 million aggregate principal amount of 3.50% Convertible Senior Notes due October 1, 2024 (the "Notes"). The Notes bear interest at a rate of 3.50% per annum, payable semi-annually in arrears in cash on April 1 and October 1 of each year. See Note 18, "Borrowings," to our consolidated financial statements for key terms of the Notes.

Our credit agreement for our bank debt facility contains covenants which require, among other things, maintenance of certain financial ratios, indebtedness and also, under certain conditions, restrict our ability to pay dividends, repurchase common shares and make other restricted payments as defined in the credit agreement. The credit agreement provides for a \$300 million revolving credit facility including a letter of credit sub-facility. Our credit facility has a maturity date of November 21, 2022 and is voluntarily payable from time to time without premium or penalty.

Our cash flow from operations provides the primary source of funds for our debt service payments. If our cash flow from operations declines, we may not be able to service or refinance our current debt which could adversely affect our business and financial condition. In addition, we have limited ability to increase our borrowings under our existing credit agreement.

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We may in the future require additional financing to fund one or more acquisitions and may not be able to obtain such additional financing on competitive terms or at all, which could restrict our ability to complete such transactions, or could impose financial or operational restrictions on our business.

We may not have the ability to use cash to settle the principal amount of the Notes upon conversion or to repurchase the Notes upon a fundamental change, which could result in dilution and could adversely affect our financial condition.

The Notes are convertible any time prior to their maturity on October 1, 2024 into cash, stock or a combination of cash and stock at an initial conversion rate set forth in the indenture governing the Notes (the "Indenture"). Notes that are converted in connection with a make-whole fundamental change (as defined in the Indenture) may be entitled to an increase in the conversion rate for such Notes. Upon a conversion event, if we do not have adequate cash available or cannot obtain additional financing, or our use of cash is restricted by applicable law, regulations or agreements governing our current or future indebtedness, we may not be able to use cash to settle the principal amount of the Notes upon conversion. If we settle any portion of the principal amount of the Notes upon conversion in stock, it will result in immediate dilution to existing stockholders and such dilution could be material.

In addition, holders of the Notes have the right to require us to repurchase their Notes upon the occurrence of a fundamental change (as defined in the Indenture) at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. If we do not have adequate cash available or cannot obtain additional financing, or our use of cash is restricted by applicable law, regulations or agreements governing our current or future indebtedness, we may not be able to repurchase the Notes when required under the Indenture, which would constitute an event of default under the Indenture. An event of default under the Indenture could also lead to a default under other agreements governing our current and future indebtedness, and if the repayment of such other indebtedness were accelerated, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversion of the Notes.

The terms of the Notes could delay or prevent an attempt to take over our Company.

The terms of the Notes require us to repurchase the Notes in the event of a fundamental change. A takeover of our Company would constitute a fundamental change. This could have the effect of delaying or preventing a takeover of our Company that may otherwise be beneficial to our stockholders.

We are exposed to credit risk and fluctuations in the market values of our investment and derivatives portfolios.

Any deterioration of the credit and capital markets in the United States, Asia or other regions of the world could result in volatility of our investment earnings and impairments to our investment portfolio, which could negatively impact our financial condition and reported income. Changes in economic conditions could adversely affect the ability of counterparties, including counterparties to our foreign exchange forward contracts, to meet their obligations to us, which could materially affect our positions and investments.

We may be required to transition from the use of the LIBOR interest rate index in the future. We could be unable to refinance our outstanding indebtedness on reasonable terms or at all.

Our credit facility, which represents a portion of our borrowing, bears interest at a variable rate based on the London Interbank Offered Rate ("LIBOR"). In July 2017, the United Kingdom's Financial Conduct Authority ("FCA"), which regulates LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. In June 2017, the Federal Reserve Bank of New York's Alternative Reference Rates Committee announced the Secured Overnight Financing Rate ("SOFR") as its recommended alternative to USD LIBOR. However, the composition and characteristics of SOFR are not the same as those of USD LIBOR, and there can be no assurance that SOFR will perform in the same way as LIBOR would have at any time.

If LIBOR ceases to exist, we may need to renegotiate our credit facility and some financing agreements extending beyond 2021 that utilize LIBOR as a factor in determining the interest rate, and may not be able to do so with terms that are favorable to us. We are evaluating the potential impact of the cessation of LIBOR, however, we are not able to predict whether LIBOR will cease to be available or cease to be used (whether before or after 2021), whether SOFR or any other rate will become a widely accepted replacement for LIBOR, or the terms on which we may be able to renegotiate our credit facility and its eventual impact on our interest expense. The overall financing market may be disrupted as a result of the cessation or phase-out of LIBOR. Disruption

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in the financial market or the inability to renegotiate the credit facility with favorable terms could have a material adverse effect on our business, financial position, and operating results.

Uncertainties in the interpretation and application of the U.S. Tax Cuts and Jobs Act of 2017 could materially affect our tax obligations and effective tax rate.

The Tax Cuts and Jobs Act of 2017 (the “Tax Reform Act”) was enacted on December 22, 2017, and significantly affected U.S. tax law by changing how the U.S. imposes income tax on multinational corporations. The U.S. Department of Treasury has broad authority to issue regulations and interpretative guidance that may significantly impact how we will apply the law and impact our results of operations in the period issued. The Tax Reform Act requires complex computations not previously provided in U.S. tax law. As such, the application of accounting guidance for such items continues to remain uncertain. Further, compliance with the Tax Reform Act and the accounting for such provisions require accumulation of information not previously required or regularly produced. As a result, we have provided the effect of the Tax Reform Act in our financial statements.

Risks Related to the International Nature of Our Business

We may choose to expand operations to additional countries and may not be successful in maintaining our current profit margins in our new locations due to factors beyond our control.

We have offices and operations in various countries around the world and provide services to customers globally. We continually evaluate additional locations outside our current operating geographies in which to invest in operations centers, in order to maintain an appropriate cost structure for our clients’ needs. In recent years we have opened new operations centers in countries outside of the U.S. We cannot predict the extent of government support, availability of qualified workers, or monetary and economic conditions in other countries. Additionally, we may expand into less developed countries that have less political, social or economic stability and less developed infrastructure and legal systems. Although some of these factors will influence our decision to establish operations in another country, there are inherent risks beyond our control, including exposure to currency fluctuations, political uncertainties, foreign exchange restrictions and foreign regulatory restrictions. We may also face difficulties integrating new facilities in different countries into our existing operations. One or more of these factors or other factors relating to expanded international operations could result in increased operating expenses and make it more difficult for us to manage our costs and operations, which could harm our business and negatively impact our operating results and cash flows.

If more stringent labor laws become applicable to us or if our employees unionize, our profitability may be adversely affected.

Some of the geographies where we operate have stringent employee friendly labor legislation, including legislation that sets forth detailed procedures for dispute resolution, employee separation, as well as imposing financial obligations on employers upon retrenchment. Though we are exempt from some of these labor laws at present under applicable exceptions in relevant jurisdictions, there can be no assurance that such laws will not become applicable to us in the future. If these labor laws become applicable to our employees, it may become difficult for us to maintain flexible human resource policies and attract and employ the numbers of sufficiently qualified candidates that we need or discharge employees, and our compensation expenses may increase significantly. Regulations in other countries in which we operate also regulate our relations with our employees.

During the quarter ended March 31, 2019, there was a judicial pronouncement in India with respect to defined contribution benefits payments interpreting certain statutory defined contribution obligations of employees and employers. It is unclear whether the interpretation set out in the pronouncement has retrospective application. If applied retrospectively, the interpretation may result in a significant increase in contributions payable by the Company for past periods for certain of its India-based employees and could have a material adverse effect on our results of operations, financial condition and cash flows.

In addition, our employees may in the future form unions. If employees at any of our operations centers become eligible for union membership, we may be required to raise wage levels or grant other benefits that could result in an increase in our compensation expenses, in which case our profitability and cash flows may be adversely affected.

The Government of India in the past few years has focused on the occupational health and safety concerns experienced by workers in the outsourcing industry. The introduction of legislation imposing restrictions on working hours or conditions of professionals in the outsourcing industry could have an adverse effect on our business, results of operations, cash flows and financial condition.

Our global operations subject us to significant labor and employment risks.

We may from time to time be subject to litigation or administrative actions resulting from claims against us by current or former employees, individually or as part of a class action, including for claims of wrongful termination, discrimination (including on grounds of nationality, ethnicity, race, faith, gender, marital status, age or disability), misclassification, redundancy payments described above, or other violations of labor laws, or other alleged conduct. If we are held liable for unpaid compensation, redundancy payments, statutory penalties, and other damages arising out of such actions and litigations, such liabilities could have a material adverse effect on our business, reputation, results of operations, financial condition and cash flows.

Our financial condition could be negatively affected if foreign governments introduces new legislation, reduce or withdraw tax benefits and other incentives currently provided to companies within our industry or if we are not eligible for these benefits.

We are subject to income taxes in the United States and other foreign jurisdictions. Our tax expense and cash tax liability in the future could be adversely affected by various factors, including, but not limited to, changes in tax laws, regulations, accounting principles or interpretations and the potential adverse outcome of tax examinations. Changes in the valuation of deferred tax assets and liabilities, which may result from a decline in our profitability or changes in tax rates or legislation, could have a material adverse effect on our tax expense.

Certain operations centers in India, which were established in Special Economic Zones (“SEZs”), are eligible for tax incentives until 2025. These operations centers are eligible for a 100% income tax exemption for the first 5 years of operations and 50% exemption for a period of 5 years thereafter. We anticipate establishing additional operations centers in SEZs or other tax advantaged locations in the future.

As our SEZ legislation benefits are phasing out, our Indian tax expense may materially increase and our after-tax profitability may be materially reduced, unless we can obtain comparable benefits under new legislation or otherwise reduce our tax liability. Similarly, alternative minimum taxes are imposed by certain jurisdictions on otherwise exempt income, which may increase our tax expense in future years.

We also benefit from a corporate tax holiday in the Philippines for our operations centers established there over the last several years. The tax holiday already expired for few of our centers and will expire in the future for the other centers, which may lead to an increase in our overall tax rate. Following the expiry of the tax exemption, income generated from centers in the Philippines will be taxed at the prevailing annual tax rate.

As a result of the foregoing, our overall effective tax rate may increase in future years and such increase may be material and may have impact on our business, results of operations, financial condition and cash flows.

If the transfer pricing arrangements we have among our subsidiaries are determined to be inappropriate, our tax liability may increase.

U.S. and Indian transfer pricing regulations, as well as regulations applicable in other countries in which we operate, require that any international transaction involving associated enterprises be at an arm’s-length price. Transactions among the Company’s subsidiaries and the Company may be required to satisfy such requirements. Accordingly, the Company determines the pricing among its associated enterprises on the basis of detailed functional and economic analysis involving benchmarking against transactions among entities that are not under common control. The tax authorities have jurisdiction to review this arrangement and in the event that they determine that the transfer price applied was not appropriate, the Company may incur increased tax liability, including accrued interest and penalties, which would cause our tax expense to increase, possibly materially, thereby reducing our profitability and cash flows. The Company is currently involved in disputes with the Indian tax authorities over the application of some of its transfer pricing policies for past years. See Note 22 and Note 26 to our consolidated financial statements for details.

Introduction of tax legislation and disputes with tax authorities may have an adverse effect on our operations and our overall effective tax rate.

Governments in countries in which we operate or provide services could enact new tax legislation, which could have a material adverse effect on our business, results of operations, financial condition and cash flows. In addition, our ability to repatriate surplus earnings from our operations centers in a tax-efficient manner is dependent upon interpretations of local laws, possible changes in such laws and the renegotiation of existing double tax avoidance treaties. Changes to any of these may adversely affect

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our overall tax rate, which would have a material adverse effect on our business, results of operations, financial condition and cash flows.

The Company's legal entity rationalization project is an ongoing endeavor to simplify our global legal entity structure, remove redundancies and reduce compliance risks and costs. Furthermore, we also strive to optimize the tax and financial efficiencies of the group structure. As a result, we may carry out certain re-organizations under the tax laws of various jurisdictions in which we operate and take certain positions to qualify for tax neutrality for such internal re-organization. However, we cannot assure you that any of these projects will be fully implemented or implemented in a manner satisfactory to the Company, or, if it is implemented, that there will not be any adverse actions brought by the tax authorities of certain jurisdictions if this re-organization is implemented.

Our earnings may be adversely affected if we repatriate funds held by our foreign subsidiaries.

We earn a significant amount of our earnings outside of the United States. We do not presently intend to repatriate funds held by our foreign subsidiaries in light of the current regulatory environment (including under the Tax Reform Act) and because our future growth depends in part upon continued infrastructure and technology investments, geographical expansions and acquisitions outside of the U.S. Not all of the undistributed earnings may be available for repatriation due to foreign legal restrictions that require minimum reserves to be maintained in those countries. However, in light of the Tax Reform Act, such earnings have been subject to U.S. federal tax as a result of the mandatory repatriation provision described in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Income Taxes" and in Note 22 to our consolidated financial statements contained herein. If we change our present intention and decide to repatriate such earnings, we may have to accrue further taxes associated with such earnings in accordance with local tax laws, rules and regulations in the relevant jurisdictions. All of these risks and uncertainties could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our global operations expose us to numerous and sometimes conflicting legal and regulatory requirements, and violations of these regulations could harm our business.

We provide services to clients throughout the world, therefore we are subject to numerous, and sometimes conflicting, legal rules on matters as diverse as import/export controls, content requirements, trade restrictions, tariffs, taxation, sanctions, government affairs, internal and disclosure control obligations, data privacy and labor relations. The global nature of our operations increases the difficulty of compliance. Compliance with diverse legal requirements is costly, time-consuming and requires significant resources. Violations of these laws or regulations in the conduct of our business could result in fines, criminal sanctions against us or our officers, prohibitions on doing business, damage to our reputation and other unintended consequences such as liability for monetary damages, fines and/or criminal prosecution, unfavorable publicity, restrictions on our ability to process information and allegations by our clients that we have not performed our contractual obligations. Due to the varying degrees of development of the legal systems of the countries in which we operate, local laws might be insufficient to protect our rights. Our failure to comply with applicable legal and regulatory requirements could have a material adverse effect on our business, results of operations, financial condition and cash flows.

In addition, it may be difficult to enforce our intellectual property rights both within and outside of the U.S. India is a member of the Berne Convention, an international intellectual property treaty, and has agreed to recognize protections on intellectual property rights conferred under the laws of other foreign countries, including the laws of the U.S. There can be no assurance, however, that the laws, rules, regulations and treaties in effect in the U.S., India and the other jurisdictions in which we operate and the contractual and other protective measures we take, are adequate to protect us from misappropriation or unauthorized use of our intellectual property, or that such laws will not change.

Among other anti-corruption laws and regulations, including the U.K. Bribery Act, we are subject to the United States Foreign Corrupt Practices Act, or FCPA, which prohibits improper payments or offers of improper payments to foreign officials to obtain business or any other benefit. The FCPA also requires covered companies to make and keep books and records that accurately and fairly reflect the transactions of the company and to devise and maintain an adequate system of internal accounting controls. In many parts of the world, including countries in which we operate, practices in the local business community might not conform to international business standards and could violate these anti-corruption laws or regulations. Although we have policies and procedures in place that are designed to promote legal and regulatory compliance, our employees, subcontractors and agents could take actions that violate these policies or procedures or applicable anti-corruption laws or regulations. Furthermore, the U.S. government may seek to hold us liable for successor liability FCPA violations committed by companies in which we invest or that we acquire. Violations of these laws or regulations could subject us to criminal or civil enforcement actions, including fines and suspension or disqualification from government contracting or contracting with private entities in certain highly regulated industries, any of which could have a material adverse effect on our business.

Currency exchange rate fluctuations in the various currencies in which we do business, especially the Indian rupee and Philippine peso versus the U.S. dollar, could have a material adverse effect on our results of operations.

Although we report our operating results in U.S. dollars, a portion of our revenues and expenses are denominated in currencies other than the U.S. dollar. Fluctuations in foreign currency exchange rates can have a number of adverse effects on us. Because our consolidated financial statements are presented in U.S. dollars, we must translate revenues, expenses and income, as well as assets and liabilities, into U.S. dollars at exchange rates in effect during or at the end of each reporting period. The exchange rates among the Indian rupee, Philippine peso and other currencies in which we incur costs or receive revenues and the U.S. dollar have changed substantially in recent years and may fluctuate substantially in the future. See Item 7A—"Quantitative and Qualitative Disclosures about Market Risk." Additionally, because a majority of our employees are based in India and the Philippines and paid in Indian rupees or Philippine peso while our revenues are primarily reported in U.S. dollars and U.K. pounds sterling, our employee costs as a percentage of revenues may increase or decrease significantly if the exchange rates among the Indian rupee, Philippine peso and the U.S. dollar fluctuate significantly.

Our results of operations could be adversely affected over time by certain movements in exchange rates, particularly if the Indian rupee or other currencies in which we incur expenses or receive revenues, change substantially against the U.S. dollar. Although we take steps to hedge a substantial portion of our Indian rupee/U.S. dollar, U.K. pounds sterling/U.S. dollar and Philippine peso/U.S. dollar foreign currency exposures, there is no assurance that our hedging strategy will be successful or that the hedging markets will have sufficient liquidity or depth to allow us to implement our hedging strategy in a cost-effective manner. Any failure by our hedging counterparties to meet their contractual obligations could materially and adversely affect our profitability. We are subject to legal restrictions on hedging activities as well as the convertibility of currencies in India. This could limit our ability to use cash generated in one country in another country and could limit our ability to hedge our exposures.

In June 2016, the U.K. held a referendum in which British citizens approved an exit from the European Union ("EU"), commonly referred to as "Brexit." Following protracted negotiations, the United Kingdom left the European Union on January 31, 2020. Under the withdrawal agreement, there is a transitional period until December 31, 2020 (extendable up to two years). Discussions between the United Kingdom and the EU have so far mainly focused on finalizing withdrawal issues and transition agreements but have been extremely difficult. To date, only an outline of a trade agreement has been reached. If no trade agreement has been reached before the end of the transitional period, there may be significant market and economic disruption. The UK Prime Minister has indicated that the United Kingdom will not seek to extend the transitional period beyond the end of 2020. The UK Prime Minister has also indicated that the UK will not accept high regulatory alignment with the EU.

As a result of the referendum earlier and the recent exit of the U.K. from the EU, the global markets and currencies have been and may in the future be adversely impacted, including experiencing a decline in the value of the U.K. pound sterling as compared to the U.S. dollar and causing adverse impacts to our U.K. operations and those of our clients. Volatility in exchange rates is expected to continue until transition agreements on trade and regulatory matters are formalized, besides other withdrawal issues. As a result, it is possible that events in the U.K. related to Brexit may adversely affect our financial results, operations and cash flows.

Terrorist attacks and other acts of violence involving India, the Philippines, the U.S. or other countries could adversely affect the financial markets, result in a loss of client confidence and adversely affect our business, results of operations, financial condition and cash flows.

Terrorist attacks and other acts of violence or war, including those involving India, the Philippines, the U.S. or other countries, may adversely affect worldwide financial markets and could lead to economic recession, which could adversely affect our business, results of operations, financial condition and cash flows. These events could adversely affect our clients' levels of business activity and precipitate sudden significant changes in regional and global economic conditions and cycles. These events also pose significant risks to our people and to our operations centers. South Asia has, from time to time, experienced instances of civil unrest and hostilities among neighboring countries, including Bangladesh, Pakistan and China. In recent years there have been several instances of military confrontations along the Indo-Pakistani border. There continues to be potential for hostilities between India and Pakistan due to recent terrorist activities and the geopolitical climate along the border. Although this has not been the case to date, such political tensions could create a perception that there is a risk of disruption of services provided by companies with operations in India, which could have a material adverse effect on the market for our services. Furthermore, if India were to become engaged in armed hostilities, particularly hostilities that were protracted or involved the threat or use of nuclear weapons, we might not be able to continue our operations in India. Our insurance policies may not insure us against losses and interruptions caused by terrorist attacks and other acts of violence or war.

A substantial portion of our assets and operations are located in India, and we are subject to regulatory, economic and political uncertainties in India.

Many of our operating subsidiaries are incorporated in India, and a substantial portion of our assets and our professionals are located in India. We intend to continue to develop and expand our offshore facilities in India. In the past, India experienced significant inflation, low growth in gross domestic product and shortages of foreign currency reserves. The Indian government, however, has exercised and continues to exercise significant influence over many aspects of the Indian economy. India's government has provided significant tax incentives and relaxed certain regulatory restrictions in order to encourage foreign investment in specified sectors of the economy, including our industry. Certain of those programs, which have benefited us, include tax holidays, liberalized import and export duties and preferential rules on foreign investment and repatriation. We cannot assure you that liberalization policies will continue or that any other changes made by the Indian government will be favorable to our operations or business. Recent changes in the leadership of the Indian government, could result in the modification of India's economic liberalization, deregulation and other policies and disrupt business and economic conditions in India generally and our business in particular. Any such actions could remove benefits currently received by us or impose additional taxes or other obligations on us and therefore negatively impact our business.

The choice of India as an outsourcing destination and our financial performance may be adversely affected by general economic conditions and economic and fiscal policy in India, including changes in exchange rates and controls, interest rates and taxation policies, as well as social stability and political, economic or diplomatic developments affecting India in the future. In particular, India has experienced significant economic growth over the last several years, but faces major challenges in sustaining that growth in the years ahead. These challenges include the need for substantial infrastructure development and improving access to healthcare and education. Our ability to recruit, train and retain qualified employees, develop and operate our operations centers, and attract and retain clients could be adversely affected if India does not successfully meet these challenges.

Restrictions on visas and work permits may affect our ability to compete for and provide services to clients in the U.S. and other jurisdictions, which could make it more difficult to staff engagements and could increase our costs, which could have an adverse effect on our net income.

Immigration and work permit laws and regulations in the countries in which we have customers are subject to legislative and administrative changes as well as changes in the application of standards and enforcement.

The ability of some of our executives and employees based in India and other foreign locations to work with and meet clients in the U.S. and other jurisdictions depends on their ability to obtain the necessary visas and work permits. In recent years, immigration authorities, in the U.S. as well as other jurisdictions in which our clients are based, have increased the level of scrutiny in granting such visas and work permits. In addition, immigration laws are subject to legislative change and varying standards of application and enforcement due to political forces, economic conditions or other events, including terrorist attacks. We cannot predict the political or economic events that could affect immigration laws or any restrictive impact those events could have on obtaining or monitoring visas or work permits for our professionals. The ability to move our employees around the world as necessary to meet client demands is important to our business. If we are unable to efficiently deploy talent because of increased regulation of immigration or work visas, including limitations placed on the number of visas granted, limitations on the type of work performed or location in which the work can be performed, and new or higher minimum salary requirements, it could be more difficult to staff our employees on client engagements and could increase our costs and have an adverse effect on our net income and cash flows.

We are vulnerable to natural disasters, technical disruptions and man-made events that could severely disrupt the normal operation of our business and adversely affect our business, results of operations, financial condition and cash flows.

Our operations centers and our data and voice communications, particularly in India and the Philippines, may be damaged or disrupted as a result of natural disasters such as earthquakes, floods, volcano eruptions, heavy rains, epidemics or pandemics, tsunamis and cyclones, technical disruptions such as electricity or infrastructure breakdowns, including damage to telecommunications cables, computer glitches and electronic viruses or man-made events such as protests, riots and labor unrest. Such events may lead to the disruption of information systems and telecommunication services for sustained periods. They also may make it difficult or impossible for employees to reach our business locations. Damage or destruction that interrupts our provision of services could adversely affect our reputation, our relationships with our clients, our leadership team's ability to administer and supervise our business or it may cause us to incur substantial additional expenditure to repair or replace damaged equipment or delivery centers. We may also be liable to our clients for disruption in service resulting from such damage or destruction. While we currently have commercial liability insurance, our insurance coverage may not be sufficient. Furthermore, we may be unable to secure such insurance coverage at premiums acceptable to us in the future or at all. Prolonged disruption of

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our services would also entitle our clients to terminate their contracts with us. Any of the above factors may adversely affect our business, results of operations, financial condition and cash flows.

Investors may have difficulty effecting service of process or enforcing judgments obtained in the U.S. against our subsidiaries in India or our executive officers.

Our primary operating subsidiaries are organized outside the U.S. and some of our executive officers may reside outside of the U.S. A substantial portion of our assets are located in India. As a result, you may be unable to effect service of process upon our affiliates who reside in India outside their jurisdiction of residence. In addition, you may be unable to enforce against these persons outside the jurisdiction of their residence judgments obtained in courts of the U.S., including judgments predicated solely upon the federal securities laws of the U.S.

Sections 44A and Section 13 of the Indian Civil Procedure Code, 1908 (the “Civil Code”) govern recognition and enforcement of foreign judgments. Section 44A of the Civil Code provides for recognition and enforcement of a foreign judgment without having to file an original suit in India, provided such judgments have been rendered by courts in a country or territory outside India which the Government of India has declared to be a reciprocating territory. We have been advised by our Indian counsel that the U.S. and India do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than certain arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the U.S. based on civil liability, whether or not it is predicated upon the federal securities laws of the U.S., would not be enforceable in India as such.

However, if the party in whose favor such final judgment is rendered brings a new suit in a competent court in India based on a final judgment that has been obtained in the U.S., Section 13 of the Civil Code provides that the foreign judgment will be conclusive as to certain matters. The suit must be brought in India within three years of the date of the foreign judgment. It is unlikely, however, that a court in India would award damages on the same basis as a court in the U.S. if an action is brought in India. It is also unlikely that an Indian court would enforce judgments obtained in the U.S. if it viewed the amount of damages awarded as excessive or inconsistent with Indian practice.

Risks Related to our Common Stock

Delaware law and our amended and restated certificate of incorporation and by-laws contain certain anti-takeover provisions that could delay or discourage business combinations and takeover attempts that stockholders may consider favorable.

Our amended and restated certificate of incorporation and by-laws contain provisions that may make it more difficult, expensive or otherwise discourage a tender offer or a change in control or takeover attempt by a third-party that is opposed by our board of directors. These provisions include classified board provisions, provisions permitting the board of directors to fill vacancies created by its expansion, provisions permitting the removal of directors only for cause and with the vote of holders of two thirds of our common stock, provisions requiring the vote of holders of two thirds of our common stock for certain amendments to our organizational documents, provisions barring stockholders from calling a special meeting of stockholders or requiring one to be called or from taking action by written consent and provisions that set forth advance notice procedures for stockholders’ nominations of directors and proposals for consideration at meetings of stockholders. These provisions may have the effect of delaying or preventing a change of control or changes in management that stockholders consider favorable. Additionally, because we are incorporated in Delaware, we are subject to Section 203 of the Delaware General Corporation Law. Section 203 may prohibit large stockholders, in particular those owning 15.0% or more of our outstanding voting stock, from merging or combining with us. These provisions of our amended and restated certificate of incorporation, by-laws and Delaware law could discourage potential takeover attempts and reduce the price that investors might be willing to pay for shares of our common stock in the future which could reduce the market price of our stock.

We do not intend to pay dividends in the foreseeable future, and, because we are also a holding company, we may be unable to pay dividends.

For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of our board of directors and will be dependent on then-existing conditions, including our financial condition and results of operations, capital requirements, contractual restrictions, including restrictions under our credit agreement, business prospects and other factors that our board of directors considers relevant. Furthermore, because we are also a holding company, any dividend payments would also depend on the cash flow from our subsidiaries. Accordingly, under certain circumstances, we may not be able to pay dividends even if our board of directors would otherwise deem it appropriate.

Our stock price continues to be volatile.

Our stock has at times experienced substantial price volatility as a result of, among other reasons, variations between our actual and anticipated financial results, announcements by us and our competitors, projections or speculation about our business or that of our competitors by the media or investment analysts or uncertainty about current global economic conditions. The stock market, as a whole, experiences extreme price and volume fluctuations that affect the market price of many companies, including technology companies, in ways that may have been unrelated to these companies' operating performance. Furthermore, we believe our stock price should reflect future growth and profitability expectations and, if we fail to meet these expectations, this may have a materially adverse effect on the trading price of our common stock.

Risks Related to our Industry

Our industry is subject to rapid technological change, and we may not be successful in addressing these changes.

Our industry is characterized by rapid technological change, evolving industry standards, changing client preferences and new product introductions. The success of our business depends, in part, upon our ability to develop services that keep pace with changes in the industry. We may not be successful in addressing these changes on a timely basis, or at all, or successfully marketing any changes that we implement. In addition, products or technologies developed by others may render our services uncompetitive or obsolete. If we do not sufficiently invest in new technology and industry developments or if we do not make the right strategic investments to respond to these developments and successfully drive innovation, our services and solutions, our results of operations, and our ability to develop and maintain a competitive advantage and continue to grow could be negatively affected.

Our industry may not develop in ways that we currently anticipate due to negative public reaction in the U.S. and elsewhere to offshore outsourcing, recently proposed legislation or otherwise.

We have based our strategy of future growth on certain assumptions regarding our industry and future developments in the market for outsourcing services. For example, we believe that there will continue to be changes in product and service requirements, and investments in the products offered by our clients will continue to increase. However, the trend to outsource business processes may not continue and could reverse. Offshore outsourcing is a politically sensitive topic in the U.S. and elsewhere, and many organizations and public figures have publicly expressed concern about a perceived association between offshore outsourcing providers and the loss of jobs in the U.S. and elsewhere. In the past year there have been high-profile movements among activists as well as executive and legislative leadership in the U.S. with the potential to restrict or reduce the use of offshore resources. In addition, there has been limited publicity about the negative experience of certain companies that use offshore outsourcing, particularly in India. Current or prospective clients may elect to perform such services themselves or may be discouraged from transferring these services to offshore providers to avoid any negative perception that may be associated with using an offshore provider. Any slowdown or reversal of existing industry trends would harm our ability to compete effectively with competitors that operate out of facilities located in the U.S. and elsewhere.

A variety of U.S. federal and state legislation has been proposed that, if enacted, could restrict or discourage U.S. companies from outsourcing their services to companies with facilities outside the U.S. For example, legislation has been proposed that would require offshore providers to identify where they are located and that would require notice to individuals whose personal information is disclosed to non-U.S. companies. In addition, bills have been proposed that would provide tax and other economic incentives for companies that create employment in the U.S. by reducing their offshore outsourcing. Other bills have proposed requiring call centers to disclose their geographic locations, requiring notice to individuals whose personal information is disclosed to non-U.S. affiliates or subcontractors, requiring disclosures of companies' foreign outsourcing practices or restricting U.S. private sector companies that have federal government contracts, federal grants or guaranteed loan programs from outsourcing their services to offshore service providers. Because most of our clients are located in the U.S., any expansion of existing laws or the enactment of new legislation restricting offshore outsourcing could adversely impact our ability to do business with U.S. clients and have a material and adverse effect on our business, results of operations, financial condition and cash flows.

In other countries, such as the U.K., there has also been some negative publicity and concern expressed regarding the possible effect of job losses caused by outsourcing. Legislation enacted in the U.K. as well as other European jurisdictions provides that if a company transfers or outsources its business or a part of its business to a transferee or a service provider, the employees who were employed in such business are entitled to become employed by the transferee or service provider on the same terms and conditions as they had been employed before the transfer. The dismissal of such employees as a result of such transfer of business is deemed unfair dismissal and entitles the employees to compensation. As a result, we may become liable for redundancy payments to the employees of our clients who outsource business to us from those jurisdictions. We are generally indemnified in our existing contracts with clients in those jurisdictions to the extent we incur losses or additional costs due to the application of this legislation to us, and we intend to obtain indemnification in future contracts with clients. However, if we are unable to obtain indemnification

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in future contracts with clients or if the existing indemnification is not enforceable or available, we may be liable under those agreements we enter into with clients in the U.K. and other European jurisdictions.

Unauthorized disclosure of sensitive or confidential client and customer data, whether through breach of our computer systems or otherwise, could expose us to protracted and costly litigation and cause us to lose clients.

We are typically required to process, and sometimes collect and/or store sensitive data, including data regulated by the U.S. Health Insurance Portability and Accountability Act of 1996, as amended, of our clients' end customers in connection with our services, including names, addresses, social security numbers, personal health information, credit card account numbers, checking and savings account numbers and payment history records, such as account closures and returned checks. In addition, we collect and store data regarding our employees. As a result, we are subject to various data protection and privacy laws, including the GDPR and CCPA, in the countries in which we operate, and the failure to comply could result in significant fines and penalties. In addition, many of our agreements with our clients do not include any limitation on our liability to them with respect to breaches of our obligation to keep the information we receive from them confidential.

Although we devote substantial resources to protect our information assets and our clients' confidential information, any network infrastructure are subject to be vulnerable to rapidly evolving cyber-attacks, and our user data and corporate systems and security measures may be breached due to the actions of outside parties (including cyber-attacks), employee error, malfeasance, a combination of these, or otherwise, allowing an unauthorized party to obtain access to our data or our users' or customers' data. Additionally, outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information in order to gain access to our data or our users' or customers' data. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently or may be designed to remain dormant until a predetermined event and often are not recognized until launched against a target, we may be unable to anticipate these techniques or implement adequate preventative measures. If an actual or perceived breach of our security occurs (or a breach of a customer's security that can be attributed to our fault or is perceived to be our fault), the market perception of the effectiveness of our security measures could be harmed and we could lose users and customers. Security breaches expose us to a risk of loss of this information, litigation, remediation costs, increased costs for security measures, loss of revenue, damage to our reputation, and potential liability.

If any person, including any of our employees, negligently disregards or intentionally breaches controls or procedures with which we are responsible for complying with respect to such data or otherwise mismanages or misappropriates that data, or if unauthorized access to or disclosure of data in our possession or control occurs, we could be subject to significant liability to our clients or our clients' customers for breaching contractual confidentiality and security provisions or privacy laws, as well as liability and penalties in connection with any violation of applicable privacy laws or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or employee data, whether through breach of computer systems, systems failure, employee negligence, fraud or misappropriation, or otherwise, could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems and networks or those we develop or manage for our clients, whether by our employees or third parties, could result in negative publicity, legal liability and damage to our reputation.

If any person, including any of our employees, is able to penetrate our perimeter or internal network security, computing infrastructure or otherwise mismanages or misappropriates sensitive data, discloses or distributes any such data in an unauthorized manner, we could be subject to significant liability and lawsuits from our clients or their customers for breaching contractual confidentiality provisions or privacy laws, or investigations and penalties from regulators. Under some of our client contracts, we have agreed to pay for the costs of remediation or notice to end users or credit monitoring, as well as other costs.

Cyber-attacks penetrating the network security of our data centers or any unauthorized disclosure or access to confidential information and data of our clients or their end customers could also have a negative impact on our reputation and client confidence, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Our corporate headquarters are located in New York, New York. We have twenty six operations centers in India, six operations centers in the Philippines and one operations center in each of Bulgaria, Colombia, the Czech Republic, Romania and South Africa with an aggregate area of approximately 2,020,000 square feet and a current installed capacity of approximately 31,000 workstations, including workstations for training and our employees in enabling functions. We also have multiple operations centers and regional offices in the U.S. and an operations center in the U.K.

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Our corporate headquarters and all of our operations centers are leased under long-term leases with varying expiration dates, except for an operations center in Pune, India with an area of 86,361 sq. ft. and containing approximately 1,650 agent workstations, which we own. Substantially all of our owned and leased property is used to service all of our reporting segments. We believe that our current facilities are adequate to support our existing operations. We also believe that we will be able to obtain suitable additional facilities on commercially reasonable terms on an “as needed basis.”

ITEM 3. Legal Proceedings

In the course of our normal business activities, various lawsuits, claims and proceedings may be instituted or asserted against us. Although there can be no assurance, we believe that the disposition of matters currently instituted or asserted will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. See Note 26 to our consolidated financial statements contained herein for details regarding our tax proceedings.

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II.**ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock trades on the Nasdaq Global Select Market under the symbol “EXLS.”

As of February 25, 2020, there were 24 holders of record of our outstanding common stock. A substantially greater number of holders of our common stock are “street name” or beneficial holders, whose shares of record are held by banks, brokers, and other financial institutions.

We do not anticipate paying any cash dividends in the foreseeable future.

Unregistered Sales of Equity Securities

None

Issuer Purchases of Equity Securities

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

The Company has structured open market purchases under the 2017 Repurchase Program to comply with Rule 10b-18 under the Exchange Act. Repurchases may be discontinued at any time by management.

On December 16, 2019, the Company’s Board of Directors authorized a \$200 million common stock repurchase program beginning January 1, 2020 through December 31, 2022. The shares may be purchased by the Company from time to time from the open market and through private transactions, or otherwise, as determined by the Company’s management as market conditions warrant.

Repurchased shares under the 2017 Repurchase Program are recorded as treasury shares and are held until our Board of Directors designates that these shares be retired or used for other purposes.

The following table provides information regarding the purchase of equity securities by the Company during the three months ended December 31, 2019:

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
October 1, 2019 through October 31, 2019	40,938	\$ 65.88	40,938	\$ 2,826,599
November 1, 2019 through November 30, 2019 ⁽¹⁾	21,451	\$ 69.42	20,800	\$ 1,382,577
December 1, 2019 through December 31, 2019 ⁽¹⁾	18,521	\$ 69.84	17,979	\$ 126,644
Total	80,910	\$ 67.73	79,717	—

⁽¹⁾ Includes 1,193 shares of the Company’s common stock acquired by the Company at the price of \$69.30 in connection with satisfaction of tax withholding obligations on vested restricted stock. Price paid per share for the restricted stock was the average of high and low price of common stock on the trading day prior to the vesting date of the restricted stock units.

During the year ended December 31, 2019, the Company purchased 643,486 shares of its common stock under the 2017 Repurchase Program, for an aggregate purchase price of approximately \$39.9 million including commissions, representing an average purchase price per share of \$61.96.

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During the year ended December 31, 2019, the Company purchased 23,859 shares from employees in connection with withholding tax payments related to the vesting of restricted stock units for a total consideration of \$1.5 million. The weighted average purchase price of \$62.47 was the closing price of the Company's shares of common stock on the Nasdaq Global Select Market on the trading day prior to the vesting date of the shares of restricted stock.

Equity Compensation Plan Information

The following table provides information as of December 31, 2019 with respect to the shares of our common stock that may be issued under our existing equity compensation plans. For a description of our equity compensation plans, see Note 23 to our consolidated financial statements.

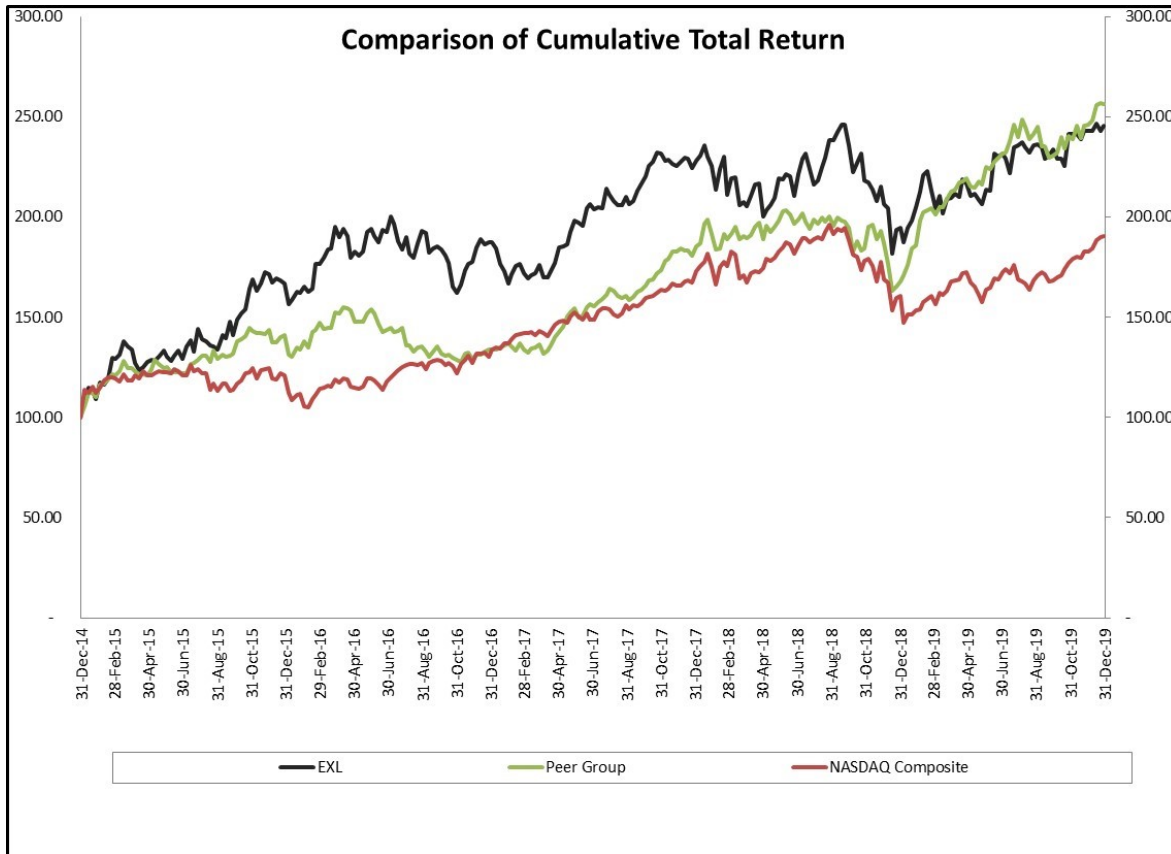
Plan Category	Number of Securities to be Issued Upon Exercise/Vesting of Outstanding Options, Warrants and Rights*	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column 1)
Equity compensation plans approved by security holders	1,353,880	\$ 23.39	2,785,763
Equity compensation plans not approved by security holders	—	—	—
Total	1,353,880	\$ 23.39	2,785,763

* This includes outstanding options and unvested Restricted Stock Units, which include Time-Based Restricted Stock Units and Performance Restricted Stock Units. See Note 23 to our consolidated financial statements for further details.

Performance Graph

The following graph compares the cumulative total stockholder return on our common stock with the cumulative total return of the Nasdaq 100 Index (capitalization weighted) and our peer group of companies for the period beginning December 31, 2014. Our peer group of companies is comprised of two companies that we believe are our closest reporting issuer competitors: Genpact Limited and WNS (Holdings) Limited. The returns of the component entities of our peer group index are weighted according to the market capitalization of each company as of the beginning of each period for which a return is presented. The returns assume that \$100 was invested on December 31, 2014 and that all dividends were reinvested. The stock performance shown on the graph below is not indicative of future price performance.

This graph will not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section. This graph will not be deemed to be incorporated by reference into any prior or subsequent filing under the Securities Act, or the Exchange Act.



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ITEM 6. Selected Financial Data

The following table sets forth our selected consolidated historical financial data as of the dates and for the periods indicated. Our selected consolidated financial data set forth below as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 has been derived from our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. Our selected consolidated financial data set forth below as of December 31, 2017, 2016 and 2015 and for years ended December 31, 2016 and 2015 is derived from our audited financial statements, which are not included in this Annual Report on Form 10-K. Our selected consolidated financial information for 2019, 2018 and 2017 should be read in conjunction with our consolidated financial statements and the notes thereto and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which are included elsewhere in this Annual Report on Form 10-K.

	Year ended December 31,				
	2019	2018 ^{(1) (3)}	2017 ⁽³⁾	2016 ⁽¹⁾	2015
(in millions, except share and per share data)					
Consolidated Statements of Income Data ⁽¹⁾					
Revenues, net	\$ 991.3	\$ 883.1	\$ 762.3	\$ 686.0	\$ 628.5
Cost of revenues ⁽²⁾	655.5	584.8	495.1	447.7	402.9
Gross profit ⁽²⁾	335.8	298.3	267.2	238.3	225.6
General and administrative expenses	126.9	116.2	102.6	88.6	77.3
Selling and marketing expenses	71.8	63.6	53.4	50.6	49.5
Depreciation and amortization expense	52.0	48.6	38.5	34.6	31.5
Impairment and restructuring charges	8.7	20.1	—	—	—
Income from operations	76.4	49.8	72.7	64.5	67.3
Foreign exchange gain, net	3.8	4.8	2.8	5.6	2.8
Interest expense	(13.6)	(7.2)	(1.9)	(1.3)	(1.3)
Other income, net	16.5	13.0	11.4	15.1	7.0
Income before income tax expense and earnings from equity affiliates	83.1	60.4	85.0	83.9	75.8
Income tax expense	15.2	3.4	36.1	22.2	24.2
Income before earnings from equity affiliates	67.9	57.0	48.9	61.7	51.6
Loss from equity-method investment	0.3	0.3	—	—	—
Net income attributable to ExlService Holdings, Inc. stockholders	\$ 67.6	\$ 56.7	\$ 48.9	\$ 61.7	\$ 51.6
Earnings per share attributable to ExlService Holdings, Inc. stockholders:					
Basic	\$ 1.97	\$ 1.65	\$ 1.44	\$ 1.84	\$ 1.55
Diluted	\$ 1.95	\$ 1.62	\$ 1.39	\$ 1.79	\$ 1.51
Weighted-average number of shares used in computing earnings per share attributable to ExlService Holdings Inc. stockholders:					
Basic	34,350,150	34,451,008	33,897,916	33,566,367	33,298,104
Diluted	34,732,683	35,030,984	35,110,210	34,563,319	34,178,340

(1) Results of operations of acquired businesses have been recorded in the financial statements since the date of acquisition. Refer to Note 10 to the consolidated financial statements.

(2) Exclusive of depreciation and amortization expense.

(3) Adjusted pursuant to adoption of ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost. Refer to Note 27 to our consolidated financial statements.

	As of December 31,				
	2019	2018	2017	2016	2015
(in millions)					
Consolidated Balance Sheets Data:					
Cash and cash equivalents ⁽¹⁾	\$ 119.2	\$ 95.9	\$ 86.8	\$ 213.2	\$ 205.3
Working capital ⁽²⁾	311.9	344.8	308.6	254.6	232.1
Total assets ⁽³⁾	1,183.1	1,061.9	825.5	706.5	650.8
Borrowings	235.0	284.7	60.7	45.0	70.0
Other long term obligations ⁽⁴⁾	89.6	25.3	30.8	15.1	17.9
Stockholders’ equity	\$ 670.0	\$ 618.1	\$ 599.8	\$ 532.0	\$ 465.6

(1) Cash and cash equivalents does not include restricted cash.

(2) Working capital means total current assets less total current liabilities.

(3) On January 1, 2019, we adopted Accounting Standards Update No. 2016-02, Leases (Topic 842), which led to recognition of right-of-use assets in the consolidated balance sheets. Prior period amounts have not been adjusted under the modified retrospective method.

(4) Other long term obligations include operating lease liabilities, unrecognized tax benefits, retirement benefits, deferred rent, unrealized losses on derivatives financial instruments, income taxes payable and other long-term liabilities.

ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in connection with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. Some of the statements in the following discussion are forward looking statements. Dollar amounts within Item 7 are presented as actual, rounded, dollar amounts.

Cautionary Note Regarding Forward-Looking Statements

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

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

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

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

Executive Overview

We are a leading operations management and analytics company that helps our clients build and grow sustainable businesses. By orchestrating our domain expertise, data, analytics and digital technology, we look deeper to design and manage agile, customer-centric operating models to improve global operations, drive profitability, enhance customer satisfaction, increase data-driven insights, and manage risk and compliance. We serve customers in multiple industries, including insurance, healthcare, banking and financial services, utilities, travel, transportation and logistics, media and retail, among others.

We operate in the business process management (“BPM”) industry and we provide operations management and analytics services. As described below, effective January 1, 2020, we realigned our operating and reportable segments, but the presentation in this Annual Report, including the discussion in the next two paragraphs, refers to the structure in place prior to such realignment.

Our eight operating segments are strategic business units that align our products and services with how we manage our business, approach our key markets and interact with our clients. Five of those operating segments provide BPM or “operations management” services, which we organize into industry-focused operating segments (Insurance, Healthcare, Travel, Transportation and Logistics, Banking and Financial Services, and Utilities) and one of the operating segments is a “capability” segment (Finance and Accounting) that provides services to clients in our industry-focused segments as well as clients across other industries. In each of these six operating segments we provide operations management services, which typically involve transfer to the Company of business operations of a client, after which we administer and manage those operations for our client on an ongoing basis. Our remaining two operating segments are Consulting, which provides industry-specific digital transformational services related to operations management services, and our Analytics operating segment, which provides services that focus on driving improved business outcomes for clients by generating data-driven insights across all parts of their business.

We present information for the following reportable segments:

- Insurance,
- Healthcare,
- Travel, Transportation and Logistics,
- Finance and Accounting,
- Analytics, and
- All Other (consisting of our remaining operating segments, including our Banking and Financial Services, Utilities and Consulting operating segments).

Effective January 1, 2020, we made certain operational and structural changes to more closely integrate our businesses and to simplify our organizational structure. We now manage and report financial information through our four strategic business units: Insurance, Healthcare, Analytics and Emerging Business which reflects how management will review financial information and make operating decisions. These business units will develop client specific solutions, build capabilities, maintain a unified go-to-market approach and be integrally responsible for service delivery, customer satisfaction, growth and profitability. In line with our strategy of vertical integration and focus on domain expertise we have integrated our Finance & Accounting and Consulting operating segments within each of the Insurance and Healthcare operating segments based on the respective industry-specific clients. Finance & Accounting and Consulting Services to clients outside of those industries, will now be part of our newly formed business unit and reportable segment ‘Emerging Business’. In addition, we integrated our former Travel, Transportation and Logistics, Banking and Financial Services, and Utilities operating segments under “Emerging Business” to further leverage and optimize the operating scale in providing operations management services.

Our new reportable segments effective January 1, 2020 are as follows:

- Insurance,
- Healthcare,
- Analytics, and
- Emerging Business

This change in segment presentation will not have any effect on our consolidated statements of income, balance sheets or statements of cash flows. The revised presentation will be reflected in our subsequent periodic and annual reports.

For further information on our operating segments, see “Item 1. Business.”

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

On July 1, 2018, we completed the acquisition of SCIO pursuant to the Merger Agreement. The acquisition of SCIO is included in the Analytics reportable segment. SCIO is a health analytics solution and services company serving healthcare organizations including providers, health plans, pharmacy benefit managers, employers, health services and global life sciences companies.

On December 31, 2019, we completed substantially the previously announced wind down of the operations of the Health Integrated business, which is reported within the Healthcare reportable segment.

Revenues

For the year ended December 31, 2019, we had revenues of \$991.3 million compared to revenues of \$883.1 million for the year ended December 31, 2018, an increase of \$108.2 million, or 12.3%.

We serve clients mainly in the U.S. and the U.K., with these two regions generating 82.5% and 11.4%, respectively, of our total revenues for the year ended December 31, 2019 and 83.0% and 13.0%, respectively, of our revenues for the year ended December 31, 2018.

For the years ended December 31, 2019 and 2018, our total revenues from our top ten clients accounted for 36.1% and 37.2% of our total revenues, respectively. Our revenue concentration with our top clients remains largely consistent year-over-year and we continue to develop relationships with new clients to diversify our client base. We believe that the loss of any of our ten largest clients could have a material adverse effect on our financial performance.

Our Business

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

Operations Management Services: We provide our clients with a range of operations management services principally in the insurance, healthcare, travel, transportation and logistics, banking and financial services and utilities sectors, among others, as well as cross-industry operations management services, such as finance and accounting services. We also provide services related to operations management, through our Consulting services that provides industry - specific digital transformational services.

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

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

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

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based services have a long selling cycle, however ongoing annual maintenance and support contracts for existing arrangements provide us with a relatively predictable revenue base.

Analytics: Our Analytics services focus on driving improved business outcomes for our customers by generating data-driven insights across all parts of our customers' business. We also provide care optimization and reimbursement optimization services, for our clients through our healthcare analytics solutions and services. We also offer integrated solutions to help our clients in cost containment by leveraging technology platforms, customizable and configurable analytics and expertise in healthcare reimbursements to help clients enhance their claim payment accuracy. Our teams deliver predictive and prescriptive analytics in the areas of customer acquisition and lifecycle management, risk underwriting and pricing, operational effectiveness, credit and operational risk monitoring and governance, regulatory reporting, payment integrity and care management and data management. We actively cross-sell and, where appropriate, integrate our Analytics services with other operations management services as part of a comprehensive offering set for our clients.

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

Expenses

Cost of Revenues

Our cost of revenues primarily consists of:

- employee costs, which include salary, bonus and other compensation expenses; recruitment and training costs; employee insurance; transport; rewards and recognition for certain employees; and non-cash stock compensation expense; and
- costs relating to our facilities and communications network, which include telecommunication and IT costs; facilities and customer management support; operational expenses for our operations centers; rent expenses; and
- travel and other billable costs to our clients; and
- costs relating to our direct mail operations and other digital solutions.

The most significant components of our cost of revenues are salaries and benefits (including stock based compensation), recruitment, training, transport, meals, rewards and recognition and employee insurance. Salary levels, employee turnover rates and our ability to efficiently manage and utilize our employees significantly affect our cost of revenues. Salary increases for most of our operations personnel are generally awarded each year effective April 1. Accordingly, employee costs are generally lower in the first quarter of each year compared to the rest of the year. We make every effort to manage employee and capacity utilization and continuously monitor service levels and staffing requirements. Although we generally have been able to reallocate our employees as client demand has fluctuated, a contract termination or significant reduction in work assigned to us by a major client could cause us to experience a higher-than-expected number of unassigned employees, which would increase our cost of revenues as a percentage of revenues until we are able to reduce or reallocate our headcount. A significant increase in the turnover rate among our employees, particularly among the highly skilled workforce needed to execute certain services, would increase our recruiting and training costs and decrease our operating efficiency, productivity and profit margins. In addition, cost of revenues also includes non-cash amortization of stock compensation expense relating to our issuance of equity awards to employees directly involved in providing services to our clients.

We expect our cost of revenues to continue to increase as we continue to add professionals in our operating centers globally to service additional business and as wages continue to increase globally. In particular, we expect training costs to continue to increase as we continue to add staff to service new clients and provide existing staff with additional skill sets. There is significant competition for professionals with skills necessary to perform the services we offer to our clients. As our existing competitors continue to grow, and as new competitors enter the market, we expect competition for skilled professionals in each of these areas to continue to increase, with corresponding increases in our cost of revenues to reflect increased compensation levels for such professionals. However, a significant portion of our client contracts include inflation-based adjustments to our billing rates year over year which partially offset such increase in cost of revenues. See Item 1A-“Risk Factors-Employee wage increases may prevent us from sustaining our competitive advantage and may reduce our profit margin.”

We generally experience a higher cost of revenues as a percentage of revenues during the initial 12 months to 18 months in a long-term BPM contract due to upfront investments in infrastructure, resource hiring and training during migration. The cost of revenues as a percentage of revenues improve as we scale up, achieve operational efficiencies and complete the migration.

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

Our general and administrative expenses are comprised of expenses relating to salaries and benefits (including stock based compensation) as well as costs related to recruitment, training and retention of senior management and other support personnel

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in enabling functions, telecommunications, utilities, travel and other miscellaneous administrative costs. General and administrative (“G&A”) expenses also include acquisition-related costs, legal and professional fees (which represent the costs of third party legal, tax, accounting and other advisors), investment in product development, digital technology, advanced automation and robotics, bad debt allowance and non-cash amortization of stock compensation expenses related to our issuance of equity awards to members of our board of directors. We expect our G&A costs to increase as we continue to strengthen our support and enabling functions and invest in leadership development, performance management and training programs.

Selling and marketing expenses primarily consist of salaries and benefits (including stock based compensation) and other compensation expenses of sales and marketing and client management personnel, sales commission, travel and brand building, client events and conferences. We expect that sales and marketing expenses will continue to increase as we invest in our sales and client management functions to better serve our clients and in our branding.

Depreciation and Amortization Expense

Depreciation and amortization pertains to depreciation of our tangible assets, including network equipment, cabling, computers, office furniture and equipment, motor vehicles and leasehold improvements and amortization of intangible assets. As we add new facilities and expand our existing operations centers, we expect that depreciation expense will increase, reflecting additional investments in equipment such as desktop computers, servers and other infrastructure. We expect amortization of intangible assets to increase further as we pursue strategic relationships and acquisitions.

Impairment Charges

Impairment charges pertain to write down of carrying values to fair values of goodwill and intangible assets acquired in a business combination. We perform our annual impairment test annually during the fourth quarter, or more frequently, as circumstances warrant, for all our reporting units and intangible assets. Based on the results, if the carrying values of our reporting units exceeds their fair values, we record impairment charges to the extent that carrying value exceeds estimated fair value. Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Such assets are required to be tested for impairment if the carrying amount of the assets is higher than the future undiscounted net cash flows expected to be generated from the assets. The impairment amount to be recognized is measured as the amount by which the carrying value of the assets exceeds their fair value.

During the fourth quarter of 2019, we performed our annual impairment test for all of our reporting units. Based on the results, the fair values of each of our reporting units exceeded their carrying values. In addition, during the year 2019 we performed impairment testing of long-lived assets which was triggered as a result of the wind down of the Health Integrated business and we recognized long-lived assets impairment charge for the assets of our Health Integrated business to write down their carrying value to its fair value. However, there can be no assurances that additional long-lived assets, goodwill and intangible assets will not be impaired in future periods (see Note 24 to our consolidated financial statements for further details).

During the fourth quarter of 2018, we performed our annual impairment test of goodwill for all of our reporting units. Based on the results, the fair values of each of our reporting units exceeded its carrying values, except for the Health Integrated reporting unit, within the Healthcare operating segment. The carrying value of our intangible assets acquired as a part of our Health Integrated acquisition also exceeded its fair value. As a result of this analysis, we recognized goodwill and intangible assets impairment charges during the fourth quarter.

Foreign Exchange

We report our financial results in U.S. dollars. However, a significant portion of our total revenues are earned in U.K. pounds sterling (10.2% and 12.7%, respectively, for the years ended December 31, 2019 and 2018), while a significant portion of our expenses are incurred and paid in Indian rupees (25.6% and 25.0%, respectively, of our total costs for the years ended December 31, 2019 and 2018) and the Philippine peso (7.9% and 7.1%, of our total costs for the years ended December 31, 2019 and 2018). The exchange rates among the Indian rupee, the Philippine peso, the U.K. pound sterling and the U.S. dollar have changed substantially in recent years and may fluctuate substantially in the future as well. The results of our operations could be substantially impacted as the Indian rupee, the Philippine peso and the U.K. pound sterling appreciate or depreciate against the U.S. dollar. See Note 2 and 17 to our consolidated financial statements and Item 7A -“Quantitative and Qualitative Disclosures about Market Risk-Foreign Currency Risk.”

Interest Expense

Interest expense primarily consist of interest on our borrowings under the credit facility and convertible senior notes, capital lease obligation and notional interest implicit in the purchase of property and equipment.

Other Income, net

Other income, net primarily consists of gain/(loss) on sale, mark to market and dividend income on our investments in mutual funds, and interest on time deposits included in cash and cash equivalents and short-term investments on our consolidated balance sheets. Other income, net also consists of changes in fair value of earn-out consideration, interest on refunds received from income tax authorities in India on completion of tax assessments and components of net periodic benefit cost such as interest cost, expected return on plan assets and amortization of actuarial gain/loss.

Income Taxes

We are subject to income taxes in the United States and other foreign jurisdictions. Our tax expense and cash tax liability in the future could be adversely affected by various factors, including, but not limited to, changes in tax laws, regulations, accounting principles or interpretations and the potential adverse outcome of tax examinations. Changes in the valuation of deferred tax assets and liabilities, which may result from a decline in our profitability or changes in tax rates or legislation, could have a material adverse effect on our tax expense.

During the year 2018, we made an election to change the tax status of most of our controlled foreign corporations (“CFC”) to disregarded entities for U.S. income tax purposes. As a result, we no longer have undistributed earnings in connection with these CFCs. The Transition Tax resulted in previously taxed income (“PTI”) which may be subject to withholding taxes and currency gains or losses upon repatriation. We presently do not intend to distribute PTI of our foreign subsidiaries and have not recorded any deferred taxes related to our investment in foreign subsidiaries. If, in the future, we change our present intention regarding the repatriation of PTI, additional taxes may be required and will be recorded in the period the intention changes.

In 2019, the Government of India introduced a new tax regime for certain Indian companies by enacting the Taxation Laws (Amendment) Act, 2019. The new tax regime is optional and provides for a lower tax rate for Indian companies, subject to certain conditions, which among other things includes not availing of specified exemptions or incentives. Some of our Indian subsidiaries have opted for the new tax regime to obtain the benefit of a lower tax rate.

Certain operations centers in India, which were established in Special Economic Zones (“SEZs”), are eligible for tax incentives until 2025. These operations centers are eligible for a 100% income tax exemption for the first 5 years of operations and 50% exemption for a period of 5 years thereafter. During 2019, tax holiday exemption for one of the unit reduced from 50% to nil, which led to the SEZ unit being taxed at the prevailing annual tax rate, which as of December 31, 2019 was 34.95%. We anticipate establishing additional operations centers in SEZs or other tax advantaged locations in the future.

We also benefited from a corporate tax holiday in the Philippines for our operations centers established there over the last several years. The tax holiday expired for few of our centers in 2014, 2016, 2018 and in 2019 and will expire for other centers by year 2022, which may lead to an increase in our overall tax rate. Following the expiry of the tax exemption, income generated from centers in the Philippines will be taxed at the prevailing annual tax rate, which as of December 31, 2019 was 5% of the gross income.

We recognize deferred tax assets and liabilities for temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. We determine if a valuation allowance is required or not on the basis of an assessment of whether it is more likely than not that a deferred tax asset will be realized.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon the financial statements included in this Annual Report on Form 10-K, which have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). A summary of our significant accounting policies is included in Note 2 -“Summary of Significant Accounting Policies” to our consolidated financial statements. We consider the policies discussed below to be critical to an understanding of our consolidated financial statements, as their application places the most significant demands on management’s judgment regarding matters that are inherently uncertain at the time an estimate is made. These policies include revenue recognition, allowance for doubtful receivables, business combinations, goodwill, intangibles and long-lived assets, stock-based compensation, derivative instruments and hedging activity, borrowings, assumptions related to lease liabilities, ROU assets, lease cost, income taxes and assets and obligations related to employee benefit plans. These accounting policies and the associated risks are set out below. Future events may not develop exactly as forecasted and estimates routinely require adjustment.

Revenue Recognition

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

Revenue is measured based on consideration specified in a contract with a customer and excludes discounts and amounts collected on behalf of third parties. We recognize revenue when we satisfy 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 us from a customer, are excluded from revenue.

Significant judgments

Arrangements with Multiple Performance Obligations

We sometimes enter into contracts with our clients which include promises to transfer multiple products and services to the client. Determining whether products and services are considered as distinct performance obligations that should be accounted for separately rather than as one performance obligation may require significant judgment. The transaction price is allocated to performance obligations on relative standalone selling price basis.

Judgment is also required to determine the standalone selling price for each distinct performance obligation. In instances where the standalone selling price is not directly observable, it is determined using information that may include market conditions and other observable inputs.

Variable Consideration

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

We consider our experience with similar transactions and expectations regarding the contract in estimating the amount of variable consideration that should be recognized during a period.

We believe that the expected value method is most appropriate for determining the variable consideration since we have a large number of contracts with similar nature of transactions/services.

Type of Contracts requires judgments

- a. Revenues for our fixed-price contracts are recognized using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the client. The use of this method requires significant judgment to estimate the cost required to complete the contracted scope of work, including assumptions and estimates relative to the length of time to complete the project and the nature and complexity of the work to be performed and resources engaged. We regularly monitor these estimates throughout the execution of the project and record changes in the period in which a change in an estimate is determined. If a change in an estimate results in a projected loss on a project, such loss is recognized in the period in which it is first identified.

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- b. Revenues from reimbursement optimization services having contingent fee arrangements are recognized by us at the point in time when a performance obligation is satisfied, which is when we identify an overpayment claim. In such contracts, our consideration is contingent upon the actual collections made by our customers and net of any subsequent retraction claims. Based on guidance on “variable consideration” in Topic 606, we use our historical experience and projections to determine the expected recoveries from our customers and recognize revenue based upon such expected recoveries. Any adjustment required due to change in estimates are recorded in the period in which such change is identified.

For additional information, see Note 5 (Revenues) to our Consolidated Financial Statements under Item 8, “Financial Statements and Supplementary Data.”

Unbilled Receivables

Unbilled receivables represent revenues recognized for services rendered between the last billing date and the balance sheet date. Unbilled receivables also include revenues recognized from reimbursement optimization services where we identify an overpayment claim. In such contracts, our consideration is contingent upon and collectable only when the actual collections are made by our customers. Based on guidance on “variable consideration” in Topic 606, we use our historical experience and projections to determine the expected recoveries from our customers and recognize revenue and receivables based upon such expected recoveries. Accordingly, the amounts for which services have been performed and for which invoices have not been issued to customers on the balance sheet date, (i.e. unbilled receivables) are presented under accounts receivable.

Deferred Revenue and contract fulfillment costs

We have contract liabilities (deferred revenue) consisting of advance billings and billing in excess of revenues recognized. Deferred revenue also includes the amount for which services have been rendered but other conditions of revenue recognition are not met, for example where we do not have an enforceable contract.

Further, we also defer revenues attributable to certain process transition activities, with respect to our customers where such activities do not represent separate performance obligations. Revenues related to such transition activities are classified under “Deferred Revenue” and “Other Non-Current Liabilities” in our consolidated balance sheets and are recognized ratably over the period during which the related services are performed.

Costs related to such transition activities are contract fulfillment costs, and thereby classified under “Other Current Assets” and “Other Assets” in the consolidated balance sheets, and are recognized over the estimated expected period of benefit, under Cost of Revenues in the consolidated statements of income.

Contract Acquisition Costs

Direct and incremental costs incurred for acquiring contracts, such as sales commissions are contract acquisition costs and thereby classified under “Other Current Assets” and “Other Assets” in the consolidated balance sheets. Such costs are amortized over the expected period of benefit and recorded under Selling and marketing expenses in the consolidated statements of income.

Upfront Payment Made to Customers

Upfront payments in nature of deal signing discount or deal signing bonuses made to customers are contract assets and classified under “Other Current Assets and Other Assets” in the consolidated balance sheets. Such costs are amortized over the expected period of benefit and are recorded as an adjustment to transaction price and reduced from revenues.

Allowance for doubtful receivables

We record accounts receivable net of allowances for doubtful accounts. Allowances for doubtful accounts are established through the evaluation of aging of accounts receivables, prior collection experience, current market conditions, clients’ financial condition and the amount of accounts receivable in dispute to estimate the collectability of these accounts receivable.

Business Combinations

We account for all business combinations using the acquisition method of accounting as prescribed by Accounting Standards Codification (“ASC”) Topic 805, “Business Combinations”. The guidance requires the use of significant estimates and assumptions in allocation of the purchase price in determining the fair value of identifiable assets acquired and liabilities assumed, including intangible assets and contingent consideration and allocation of purchase price over such assets and liabilities on the acquisition date. The significant estimates and assumptions include, but are not limited to, the timing and amount of future revenue and cash flows based on, among other things, anticipated growth rates and customer attrition rates and the discount rate reflecting the risk inherent in future cash flows.

Goodwill, Intangible Assets and Long-lived Assets

Goodwill represents the cost of the acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased in a business combination. Goodwill is not amortized but is tested for impairment at least on an annual basis, relying on a number of factors including operating results, business plans and estimated future cash flows of the reporting units to which it is assigned. We undertake studies to determine the fair values of assets and liabilities acquired and allocate purchase consideration to assets and liabilities, including property and equipment, goodwill and other identifiable intangibles. We examine the carrying value of the goodwill annually in the fourth quarter, or more frequently, as circumstances warrant, to determine whether there are any impairment losses. We test for goodwill impairment at the reporting unit level.

The quantitative goodwill impairment test involves a comparison of the fair value of a reporting unit with its carrying amount. We estimate the fair value of a reporting unit using a combination of the income approach, using discounted cash flow analysis (“DCF model”), and also the market approach, using market multiples for reporting units whereby the fair value is not substantially in excess of carrying value. Under the income approach, fair value is determined based on the present value of estimated future cash flows, discounted at an appropriate risk-adjusted rate. We use our internal forecasts to estimate future cash flows and include an estimate of long-term future growth rates based on our most recent views of the long-term outlook for each business. Actual results may differ from those assumed in our forecasts. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective reporting units. The discount rate is mainly based on judgment of the specific risk inherent within each reporting unit. The variables within the discount rate, many of which are outside of our control, provide us best estimate of all assumptions applied within the DCF model. Discount rates used in our reporting unit valuations range from 9.0% to 11%. We use the “Market approach” to corroborate the results of the income approach. Under the market approach, we estimate fair value based on market multiples of revenues and earnings derived from comparable publicly-traded companies with characteristics similar to the reporting unit and comparable market transactions. The estimates used to calculate the fair value of a reporting unit change from year to year based on operating results, market conditions and other factors. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

During the fourth quarter of 2019, we performed our annual impairment test of goodwill for all our reporting units that had goodwill recorded. Key assumptions used in determining the fair value of our reporting units was a long-term revenue growth rate in the terminal year of 3.0% and discount rates ranging from 9.0% to 11.0%. Based on the results, the fair value of each of our reporting units exceeded their carrying value and our goodwill was not impaired. However, for the SCIO reporting unit within the Analytics reportable segment, the fair value was not substantially in excess of its carrying value. The SCIO reporting unit was formed as a result of our SCIO acquisition in July 2018 and the fair value was set at the time of acquisition. As of December 31, 2019, the goodwill associated with the SCIO reporting unit was \$163.8 million, representing approximately 47.0% of our total goodwill, and the percentage by which the fair value of the SCIO reporting unit exceeded the carrying value as of the date of the most recent annual impairment test was approximately 10.0%. While the goodwill of this reporting unit is not currently impaired, there could be an impairment in the future as a result of changes in certain assumptions. For example, the fair value could be adversely affected and may result in an impairment of goodwill if this reporting unit is not able to expand its existing customer relationships, win new clients, improve profitability, the estimated cash flows are discounted at a higher risk-adjusted rate, or the market multiples decreases. We also believe that it is possible that our actual revenue growth rates could be higher than the long-term revenue growth rates used in the impairment test due to a number of factors, including (i) continued demand for our reimbursement and care optimization services to help clients identify overpayments and enhance their claims payment accuracy, and (ii) our ability to offer integrated solutions by leveraging technology platforms, digital, customizable and configurable analytics to deliver better business outcomes for our clients. We believe that the discount rate utilized is appropriate to use for our future cash flow assumptions considering current market conditions. However, keeping all other variables constant, a further 50 basis points increase in discount rate will decrease the percentage by which the fair value exceeds the carrying value of our SCIO reporting unit to 6.0%. We continue to monitor the cash flows of the SCIO reporting unit for changes in the business environment that could impact recoverability.

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Determining fair value requires the use of estimates and exercise of significant judgment, including assumptions about appropriate discount rates, perpetual growth rates, amount and timing of expected future cash flows, market multiples of revenues and earnings and comparable market transactions. These estimates and judgements may not be within our control and accordingly it is reasonably possible that the estimates and judgments described above could change in future periods. There can be no assurance that operations will achieve the future cash flows reflected in the projections. If the carrying amount of the reporting unit exceeds its fair value, an impairment loss shall be recognized, in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

We review long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, we will recognize an impairment loss when the sum of discounted expected future cash flows is less than the carrying amount of such asset. The estimate of discounted cash flows and the fair value of assets require several assumptions and estimates like the weighted average cost of capital, discount rates, risk-free rates, market rate of return and risk premiums and can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. Although we believe the historical assumptions and estimates we have made are reasonable and appropriate, different assumptions and estimates could materially impact our reported financial results. See Note 2-“Summary of Significant Accounting Policies-Business Combinations, Goodwill and Other Intangible Assets” to our consolidated financial statements for more information.

Stock-based Compensation

Under the fair value recognition provisions of ASC Topic 718, Compensation-Stock Compensation (“ASC No. 718”), cost is measured at the grant date based on the fair value of the award and is amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

Determining the fair value of stock-based awards at the grant date requires significant judgment, including estimating the expected term over which the stock awards will be outstanding before they are exercised and the expected volatility of our stock.

We also grant performance-based restricted stock units (“PRsUs”) to executive officers and other specified employees. 50% of the PRsUs cliff vest at the end of a three-year period based on an aggregated revenue target (“PUs”) for a three year period. The remaining 50% vest based on a market condition (“MUs”) that is contingent on EXL meeting or exceeding the total shareholder return relative to a group of peer companies specified under the program, measured over a three-year performance period. The award recipient may earn up to two hundred percent (200%) of the PRsUs granted based on the actual achievements of both targets.

The fair value of each PU is determined based on the market price of one share of our common stock on the day prior to the date of grant. The grant date fair value for the MUs is determined using a Monte Carlo simulation model. The Monte Carlo simulation model simulates a range of possible future stock prices and estimates the probabilities of the potential payouts. The Monte Carlo simulation model also involves the use of additional key assumptions, including dividend yield and risk-free interest rate. We periodically assess the reasonableness of our assumptions and update our estimates as required. If actual results differ significantly from our estimates, stock-based compensation expense and our results of operations could be materially affected.

Derivative Instruments and Hedging Activities

In the normal course of business, we actively look to mitigate the exposure of foreign currency market risk 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 by entering into various foreign currency exchange forward contracts, with counterparties that are highly rated financial institutions.

We hedge forecasted transactions that are subject to foreign exchange exposure with foreign currency exchange contracts that qualify as cash flow hedges. 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. 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 line in the consolidated statements of income as either part of “Cost of revenues”, “General and administrative expenses”, “Selling and marketing expenses”, or “Depreciation and amortization expense”, as applicable.

We also use derivative instruments consisting of foreign currency exchange contracts to economically hedge intercompany balances and other monetary assets or liabilities denominated in currencies other than the functional currency. These derivatives do not qualify as fair value hedges. Changes in the fair value of these derivatives are recognized in the consolidated statements of income and are included in foreign exchange gain/(loss).

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We determine the fair value of our derivatives based on market observable inputs including both forward and spot prices for currencies. Derivative assets and liabilities included in Level 2 primarily represent foreign currency forward contracts. The quotes are taken primarily from independent sources, including highly rated financial institutions.

We evaluate hedge effectiveness of cash flow hedges at the time a contract is entered into as well as on an ongoing basis. For hedge relationships that are discontinued because the forecasted transaction is not expected to occur by the end of the originally specified period, any related derivative amounts recorded in equity are reclassified to earnings.

We use forward contracts designated as net investment hedges to hedge the foreign currency risks related to our investment in foreign subsidiaries. Gains and losses on these forward contracts are recognized in AOCI as part of the foreign currency translation adjustment.

Borrowings

We account for convertible notes in accordance with the guidelines established by the ASC No. 470-20, *Debt with Conversion and Other Options*. We separate the convertible notes into liability and equity components. The Beneficial Conversion Feature ("BCF") of a convertible note, which is the equity component and recorded as additional paid-in capital, is normally characterized as the convertible portion or feature of certain notes payable that provide a rate of conversion that is below market value or in-the-money when issued. We record a BCF related to the issuance of a convertible notes when issued.

If a convertible note is within the scope of the Cash Conversion Subsections contains embedded features other than the embedded conversion option, the guidance in ASC No. 815-15, *Derivatives and Hedging - Embedded Derivatives* ("ASC 815-15"), is applied to determine if any of those features must be separately accounted for as a derivative instrument.

The estimated fair value of the liability component at issuance is determined using a discounted cash flow technique, which considers debt issuances with similar features of our convertible notes, excluding the conversion feature. The excess of the gross proceeds received over the estimated fair value of the liability component is allocated to the BCF, which is credited to additional paid-in-capital with a corresponding offset recognized as a discount to reduce the net carrying value of the convertible notes. The discount is being amortized to interest expense over the expected term of the convertible notes using the effective interest method.

Direct, incremental finance costs related to the convertible notes are amortized over the term instrument through charges to interest expense using the effective interest method.

Income Taxes

We account for income tax using the asset and liability method. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred tax assets and liabilities are recognized in respect of future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases and operating losses carried forward, if any. Deferred tax assets and liabilities are measured using the anticipated tax rates for the years in which such temporary differences are expected to be recovered or settled. We recognize the effect of a change in tax rates on deferred tax assets and liabilities during the period in which the new tax rate was enacted or the change in tax status was filed or approved. Deferred tax assets are recognized in full, subject to a valuation allowance that reduces the amount recognized to that which is more likely than not to be realized. In assessing the likelihood of realization, we consider all available evidence for each jurisdiction including past operating results, estimates of future taxable income and the feasibility of tax planning strategies. With respect to any entity that benefits from a corporate tax holiday, deferred tax assets or liabilities for existing temporary differences are recorded only to the extent such temporary differences are expected to reverse following the expiration of the tax holiday.

We also evaluate potential exposures related to tax contingencies or claims made by the tax authorities in various jurisdictions in order to determine whether a reserve may be required. A reserve is recorded if we believe that a loss is probable and if the amount of such loss can be reasonably estimated. Such reserves are based on estimates and, consequently, are subject to changing facts and circumstances, including the progress of ongoing audits, changes in case law and the passage of new legislation. We believe that we have established adequate reserves to cover any current tax assessments.

During the year 2018, we made an election to change the tax status of most of our controlled foreign corporations ("CFC") to disregarded entities for U.S. income tax purposes. As a result, we no longer have undistributed earnings in connection with these CFCs. The Transition Tax resulted in previously taxed income ("PTI") which may be subject to withholding taxes and currency gains or losses upon repatriation. We presently do not intend to distribute PTI of our foreign subsidiaries and have not recorded any deferred taxes related to our investment in foreign subsidiaries. If, in the future, we change our present intention regarding the repatriation of PTI, additional taxes may be required and will be recorded in the period the intention changes. See Note 22 to our consolidated financial statements contained herein.

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We employ a two-step process for recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining, based on the technical merits, that the position will, more likely than not, be sustained upon examination. The second step is to measure the tax benefit as the largest amount of the tax benefit that is more likely than not to be realized upon settlement.

Employee Benefits

We record contributions to defined contribution plans 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 using the projected unit credit method and various actuarial assumptions including discount rates, mortality, expected return on assets, expected increase in the compensation rates and attrition rates. We evaluate these critical assumptions at least annually. If actual results differ significantly from our estimates, current service costs for defined benefit plans and our results of operations could be materially impacted.

We recognize the liabilities for compensated absences dependent on whether the obligation is attributable to employee services already rendered, relates to rights that vest or accumulate and payment is probable and estimable.

Leases

We account for a lease at the inception of the contract. ROU assets represent our right to use an underlying asset during the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term.

For leases in which the rate implicit in the lease is not readily determinable, we use our incremental borrowing rate at commencement date by adjusting the benchmark reference rates, applicable to the respective geographies where the leases are entered, with appropriate financing spreads and lease specific adjustments for the effects of collateral.

Lease term includes our assessment for the effects of options to extend or terminate the lease. We consider the extension option as part of our lease term for those lease arrangements where we are reasonably certain that we will exercise that option. Lease expense for operating lease arrangements is recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components, which are accounted for separately.

Contingencies

Loss contingencies are recorded as liabilities when a loss is considered probable and the amount can be reasonably estimated. When a material loss contingency is reasonably possible but not probable, we do not record a liability, but instead disclose the nature and the amount of the claim, and an estimate of the loss or range of loss, if such an estimate can be made. Significant judgment is required in the determination of both probability and whether an exposure is reasonably estimable. Our judgments are subjective and based on the information available from the status of the legal or regulatory proceedings, the merits of our defenses and consultation with in-house and outside legal counsel. As additional information becomes available, we reassess any potential liability related to any pending litigation and may revise our estimates. Such revisions in estimates of any potential liabilities could have a material impact on our results of operations, financial position and cash flows.

[Table of Contents](#)**Results of Operations**

The following table summarizes our results of operations for the years ended December 31, 2019, 2018 and 2017:

	Year ended December 31,		
	2019	2018	2017
	(dollars in millions)		
Revenues, net	\$ 991.3	\$ 883.1	\$ 762.3
Cost of revenues ⁽¹⁾	655.5	584.8	495.1
Gross profit ⁽¹⁾	335.8	298.3	267.2
Operating expenses:			
General and administrative expenses	126.9	116.2	102.6
Selling and marketing expenses	71.8	63.6	53.4
Depreciation and amortization expense	52.0	48.6	38.5
Impairment and restructuring charges	8.7	20.1	—
Total operating expenses	259.4	248.5	194.5
Income from operations	76.4	49.8	72.7
Foreign exchange gain, net	3.8	4.8	2.8
Interest expense	(13.6)	(7.2)	(1.9)
Other income, net	16.5	13.0	11.4
Income before income tax expense and earnings from equity affiliates	83.1	60.4	85.0
Income tax expense	15.2	3.4	36.1
Income before earnings from equity affiliates	67.9	57.0	48.9
Loss from equity-method investment	0.3	0.3	—
Net income attributable to ExlService Holdings, Inc. stockholders	\$ 67.6	\$ 56.7	\$ 48.9

(1) Exclusive of depreciation and amortization expense.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenues.

The following table summarizes our revenues by reportable segments for the year ended December 31, 2019 and 2018:

	Year ended December 31,		Change	Percentage change
	2019	2018		
	(dollars in millions)			
Insurance	\$ 294.2	\$ 258.1	\$ 36.1	14.0 %
Healthcare	90.6	84.4	6.2	7.3 %
Travel, Transportation and Logistics	68.0	70.2	(2.2)	(3.2)%
Finance and Accounting	106.6	97.9	8.7	8.8 %
All Other	74.6	87.2	(12.6)	(14.3)%
Analytics	357.3	285.3	72.0	25.3 %
Total revenues, net	\$ 991.3	\$ 883.1	\$ 108.2	12.3 %

Revenues for the year ended December 31, 2019 were \$991.3 million, up \$108.2 million, or 12.3%, compared to the year ended December 31, 2018.

Revenue growth in Insurance of \$36.1 million was primarily driven by expansion of business from our existing clients and new wins aggregating to \$38.6 million. This was partially offset by \$2.5 million mainly attributable to the depreciation of the Australian dollar, Indian rupee, U.K. pound sterling and South African ZAR against the U.S. dollar during the year ended December 31, 2019 compared to the year ended December 31, 2018. Insurance revenues were 29.7% and 29.2% of our total revenues in 2019 and 2018, respectively.

Revenue growth in Healthcare of \$6.2 million was primarily driven by expansion of business from our existing clients and new wins aggregating to \$11.4 million, partially offset by lower revenues from our Health Integrated business of \$5.2 million. Healthcare revenues were 9.1% and 9.6% of our total revenues during the year ended December 31, 2019 compared to the year ended December 31, 2018, respectively.

Revenue decline in Travel, Transportation and Logistics ("TT&L") of \$2.2 million was primarily driven by \$1.9 million attributable to lower revenues from our existing clients and \$0.3 million attributable to the depreciation of the Indian rupee and the Euro against the U.S. dollar during the year ended December 31, 2019 compared to the year ended December 31, 2018. TT&L revenues were 6.9% and 8.0% of our total revenues during the year ended December 31, 2019 compared to the year ended December 31, 2018, respectively.

Revenue growth in Finance and Accounting ("F&A") of \$8.7 million was driven by expansion of business from our existing clients and new wins aggregating to \$9.7 million. This was partially offset by \$1.0 million mainly attributable to the depreciation of the Indian rupee, U.K. pound sterling, the Euro and Australian dollar against the U.S. dollar during the year ended December 31, 2019 compared to the year ended December 31, 2018. F&A revenues were 10.8% and 11.1% of our total revenues during the year ended December 31, 2019 compared to the year ended December 31, 2018, respectively.

Revenue decline in All Other of \$12.6 million was primarily driven by lower revenues from project based engagements and lower revenues from existing clients. Further decline of \$1.6 million was due to the depreciation of the Indian rupee and U.K. pound sterling against the U.S. dollar during the year ended December 31, 2019 compared to the year ended December 31, 2018. All Other revenues were 7.5% and 9.9% of our total revenues during the year ended December 31, 2019 compared to the year ended December 31, 2018, respectively.

Revenue growth in Analytics of \$72.0 million was primarily driven by our acquisition of SCIO in July 2018 and increase in revenues from our recurring and project-based engagements from our new and existing clients. This was partially offset by \$1.0 million attributable to the depreciation of the U.K. pound sterling and Indian rupee against the U.S. dollar during the year ended December 31, 2019 compared to the year ended December 31, 2018. Analytics revenues were 36.0% and 32.3% of our total revenues during the year ended December 31, 2019 compared to the year ended December 31, 2018, respectively.

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

	Cost of Revenues				Gross Margin		
	Year ended December 31,		Change	Percentage change	Year ended December 31,		Change
	2019	2018			2019	2018	
	(dollars in millions)						
Insurance	\$ 199.7	\$ 174.9	\$ 24.8	14.2 %	32.1%	32.2%	(0.1)%
Healthcare	73.7	66.8	6.9	10.3 %	18.7%	20.9%	(2.2)%
TT&L	38.7	41.1	(2.4)	(5.7)%	43.0%	41.5%	1.5 %
F&A	63.3	59.2	4.1	7.0 %	40.6%	39.6%	1.0 %
All Other	48.9	58.2	(9.3)	(16.2)%	34.6%	33.0%	1.6 %
Analytics	231.2	184.6	46.6	25.3 %	35.3%	35.3%	— %
Total	\$ 655.5	\$ 584.8	\$ 70.7	12.1 %	33.9%	33.8%	0.1 %

For the year ended December 31, 2019, cost of revenues was \$655.5 million compared to \$584.8 million for the year ended December 31, 2018, an increase of \$70.7 million, or 12.1%. Our gross margin for the year ended December 31, 2019 was 33.9% compared to 33.8% for year ended December 31, 2018.

The increase in cost of revenues in Insurance of \$24.8 million was primarily due to an increase in employee-related costs of \$23.6 million on account of higher headcount and wage inflation, increase in technology cost of \$2.4 million and increase in infrastructure and travel cost of \$2.4 million. This was partially offset by lower other operating costs of \$1.4 million and currency movements, net of hedging of \$2.2 million. Gross margin in Insurance decreased by 10 bps during the year ended December 31, 2019 compared to the year ended December 31, 2018, primarily due to higher operating expenses.

The increase in cost of revenues in Healthcare of \$6.9 million was primarily due to an increase in employee-related costs of \$7.4 million and higher other operating costs of \$0.5 million, partially offset by currency movements, net of hedging of \$1.0 million. Gross margin in Healthcare decreased by 220 bps during the year ended December 31, 2019 compared to the year ended December 31, 2018, primarily due to higher operating expenses associated with the initiation of services for new and existing clients.

The decrease in cost of revenues in TT&L of \$2.4 million was primarily due to lower infrastructure costs of \$0.8 million, lower employee-related costs of \$0.5 million and other operating costs of \$0.3 million. The remaining decrease of \$0.8 million was due to currency movements, net of hedging. Gross margin in TT&L increased by 150 bps during the year ended December 31, 2019 compared to the year ended December 31, 2018, primarily due to lower operating expenses.

The increase in cost of revenues in F&A of \$4.1 million was primarily due to an increase in employee-related costs of \$4.4 million on account of higher headcount and wage inflation and higher other operating costs of \$0.1 million. This was partially offset by currency movements, net of hedging of \$0.4 million. Gross margin in F&A increased by 100 bps during the year ended December 31, 2019 compared to the year ended December 31, 2018, primarily due to expansion in margin in existing clients.

The decrease in cost of revenues in All Other of \$9.3 million was primarily due to a decrease in employee-related costs of \$7.5 million, lower travel costs of \$1.2 million, lower infrastructure costs of \$1.0 million and currency movements, net of hedging of \$0.9 million. This was partially offset by higher technology costs of \$0.8 million and other operating costs of \$0.5 million. Gross margin in All Other increased by 160 bps during the year ended December 31, 2019 compared to the year ended December 31, 2018, primarily due to margin improvement across clients in operations management services.

The increase in cost of revenues in Analytics of \$46.6 million was primarily due to an increase in employee-related costs of \$42.7 million on account of higher headcount and wage inflation, including incremental cost related to our acquisition of SCIO in July 2018. The remaining increase was attributable to other operating costs of \$5.8 million, partially offset by currency movements, net of hedging of \$1.9 million. Gross margin in Analytics during 2019 as compared to 2018 was flat.

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

	Year ended December 31,		Change	Percentage change
	2019	2018		
	(dollars in millions)			
General and administrative expenses	\$ 126.9	\$ 116.2	\$ 10.7	9.2%
Selling and marketing expenses	71.8	63.6	8.2	12.9%
Selling, general and administrative expenses	\$ 198.7	\$ 179.8	\$ 18.9	10.5%
As a percentage of revenues	20.0%	20.4%		

The increase in SG&A expenses of \$18.9 million was primarily due to an increase in employee-related costs of \$19.5 million, including incremental costs related to our SCIO acquisition in July 2018 and net increase in other operating costs of \$1.0 million. This was partially offset by currency movements, net of hedging of \$1.6 million.

Depreciation and Amortization Expense.

	Year ended December 31,		Change	Percentage change
	2019	2018		
	(dollars in millions)			
Depreciation expense	\$ 30.4	\$ 28.2	\$ 2.2	7.9%
Intangible amortization expense	21.6	20.4	1.2	5.8%
Depreciation and amortization expense	\$ 52.0	\$ 48.6	\$ 3.4	7.0%
As a percentage of revenues	5.2%	5.5%		

The increase in depreciation expense of \$2.2 million was due to depreciation related to our new operating centers to support our business growth and depreciation associated with our SCIO acquisition of \$2.8 million. This was partially offset by currency movements, net of hedging of \$0.6 million. The increase in intangibles amortization expense of \$1.2 million was primarily due to amortization of intangibles associated with our SCIO acquisition in July 2018, partially offset by the impact of amortization of intangibles related to Health Integrated acquisition which were impaired during the fourth quarter of 2018.

Impairment and Restructuring Charges.

	Year ended December 31,		Change	Percentage change
	2019	2018		
	(dollars in millions)			
Impairment and restructuring charges	\$ 8.7	\$ 20.1	\$ (11.4)	(56.8)%
As a percentage of revenues	0.9%	2.3%		

During the year ended December 31, 2019, we recorded restructuring charges of \$5.1 million and impairment charges of \$3.6 million in connection with the wind down of Health Integrated business within our Healthcare operating segment. During the year ended December 31, 2018, we recognized an impairment charge of \$20.1 million to write down the carrying value of goodwill of \$14.2 million and intangible assets of \$5.9 million to their fair values related to our Health Integrated business. See Note 10 and Note 24 to our consolidated financial statements for details.

Income from Operations. Income from operations increased by \$26.6 million, or 53.5%, from \$49.8 million for the year ended December 31, 2018 to \$76.4 million for the year ended December 31, 2019. As a percentage of revenues, income from operations increased from 5.6% for the year ended December 31, 2018 to 7.7% for the year ended December 31, 2019.

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Foreign Exchange Gain/(Loss). Net foreign exchange gains and losses are primarily attributable to movement of the U.S. dollar against the Indian rupee, the U.K. pound sterling and the Philippine peso during the year ended December 31, 2019. The average exchange rate of the U.S. dollar against the Indian rupee increased from 68.48 during the year ended December 31, 2018 to 70.36 during the year ended December 31, 2019. The average exchange rate of the U.K. pound sterling against the U.S. dollar decreased from 1.33 during the year ended December 31, 2018 to 1.28 during the year ended December 31, 2019. The average exchange rate of the U.S. dollar against the Philippine peso decreased from 52.69 during the year ended December 31, 2018 to 51.57 during the year ended December 31, 2019.

We recorded a net foreign exchange gain of \$3.8 million for the year ended December 31, 2019 compared to the net foreign exchange gain of \$4.8 million for the year ended December 31, 2018.

Interest expense. Interest expense increased from \$7.2 million for the year ended December 31, 2018 to \$13.6 million for the year ended December 31, 2019 primarily due to increase in average borrowings on account of issuance of convertible notes during the fourth quarter of 2018 and higher effective interest rates under our Credit Facility.

Other Income, net.

	Year ended December 31,		Change	Percentage change
	2019	2018		
	(dollars in millions)			
Gain on sale and mark-to-market of mutual funds	\$ 13.0	\$ 10.0	\$ 3.0	30.0 %
Interest and dividend income	2.4	1.9	0.5	28.1 %
Others, net	1.1	1.1	—	(0.3)%
Other income, net	\$ 16.5	\$ 13.0	\$ 3.5	27.1 %

Other income, net increased by \$3.5 million, from \$13.0 million for the year ended December 31, 2018 to \$16.5 million for the year ended December 31, 2019 primarily due to higher return on mutual fund investments of \$3.0 million and increase in interest and dividend income of \$0.5 million.

Income Tax Expense. We recorded income tax expense of \$15.2 million and \$3.4 million for the year ended December 31, 2019 and 2018, respectively. The effective tax rate increased from 5.6% during the year ended December 31, 2018 to 18.3% during the year ended December 31, 2019 primarily as a result of (i) recording of a one-time tax benefit of \$6.3 million with respect to unused 2018 foreign branch income tax credits under regulations under the Internal Revenue Code of 1986, as amended, during the year ended December 31, 2018, (ii) recording of higher excess tax benefits related to stock awards of \$7.2 million pursuant to ASU No. 2016-09 during the year ended December 31, 2018 compared to \$2.3 million during the year ended December 31, 2019, (iii) lower tax expense of \$3.1 million on account of impairment and restructuring charges recorded during the year December 31, 2018 compared to \$0.9 million during the year ended December 31, 2019, partially offset by (iv) higher tax exemptions/incentives and a lower tax rate for qualifying Indian subsidiaries due to a change in legislation during the year ended December 31, 2019.

Net Income. Net income increased from \$56.7 million for the year ended December 31, 2018 to \$67.6 million for the year ended December 31, 2019, primarily due to increase in income from operations of \$26.6 million and increase in other income, net of \$3.5 million, partially offset by higher income tax expense of \$11.8 million, higher interest expense of \$6.4 million and lower foreign exchange gain, net of \$1.0 million. As a percentage of revenues, net income increased from 6.4% during the year ended December 31, 2018 to 6.8% during the year ended December 31, 2019.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenues.

The following table summarizes our revenues by reportable segments for the year ended December 31, 2018 and 2017:

	Year ended December 31,		Change	Percentage change
	2018	2017		
	(dollars in millions)			
Insurance	\$ 258.1	\$ 234.8	\$ 23.3	9.9 %
Healthcare	84.4	77.0	7.4	9.6 %
Travel, Transportation and Logistics	70.2	71.0	(0.8)	(1.0)%
Finance and Accounting	97.9	86.5	11.4	13.2 %
All Other	87.2	83.1	4.1	4.8 %
Analytics	285.3	209.9	75.4	35.9 %
Total revenues, net	\$ 883.1	\$ 762.3	\$ 120.8	15.8 %

Revenues for the year ended December 31, 2018 were \$883.1 million, up \$120.8 million, or 15.8%, compared to the year ended December 31, 2017.

Revenue growth in Insurance of \$23.3 million was primarily driven by expansion of business from our new and existing clients of \$24.3 million, partially offset by net impact of foreign exchange loss of \$1.0 million mainly due to depreciation of the Indian rupee against the U.S. dollar during the year ended December 31, 2018 compared to the year ended December 31, 2017. Insurance revenues were 29.2% and 30.8% of our total revenues in 2018 and 2017, respectively.

Revenue growth in Healthcare of \$7.4 million was primarily driven by our acquisition of Health Integrated in 2017, contributing \$17.0 million. This was partially offset by lower revenues of \$9.6 million due to the termination of certain client contracts. Healthcare revenues were 9.6% and 10.1% of our total revenues in 2018 and 2017, respectively.

Revenue decline in Travel, Transportation and Logistics ("TT&L") of \$0.8 million was mainly due to net impact of foreign exchange loss of \$0.8 million primarily due to the depreciation of the Indian rupee and the Philippine peso against the U.S. dollar during the year ended December 31, 2018 compared to the year ended December 31, 2017. TT&L revenues were 8.0% and 9.3% of our total revenues in 2018 and 2017, respectively.

Revenue growth in Finance and Accounting ("F&A") of \$11.4 million was driven by net volume increases from our new and existing clients. F&A revenues were 11.1% and 11.4% of our total revenues in 2018 and 2017, respectively.

Revenue growth in All Other of \$4.1 million was primarily driven by higher revenues of \$9.6 million in the Consulting operating segment, partially offset by lower revenues in our Banking and Financial Services operating segment of \$2.4 million and Utilities operating segment of \$1.8 million and a net impact of foreign exchange loss of \$1.3 million primarily due to the depreciation of the Indian rupee against the U.S. dollar during the year ended December 31, 2018 compared to the year ended December 31, 2017. All Other revenues were 9.9% and 10.9% of our total revenues in 2018 and 2017, respectively.

Revenue growth in Analytics of \$75.4 million was driven by our acquisition of SCIO in July 2018, contributing \$40.0 million. The remaining increase of \$35.4 million was attributable by our recurring and project-based engagements from our new and existing clients. Analytics revenues were 32.3% and 27.5% of our total revenues in 2018 and 2017, respectively.

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

	Cost of Revenues				Gross Margin		
	Year ended December 31,		Change	Percentage change	Year ended December 31,		Change
	2018	2017			2018	2017	
	(dollars in millions)						
Insurance	\$ 174.9	\$ 159.4	\$ 15.5	9.7 %	32.2%	32.1%	0.1 %
Healthcare	66.8	49.4	17.4	35.1 %	20.9%	35.8%	(14.9)%
TT&L	41.1	41.3	(0.2)	(0.7)%	41.5%	41.7%	(0.2)%
F&A	59.2	51.4	7.8	15.2 %	39.6%	40.6%	(1.0)%
All Other	58.2	56.6	1.6	3.0 %	33.0%	31.8%	1.2 %
Analytics	184.6	137.0	47.6	34.8 %	35.3%	34.8%	0.5 %
Total	\$ 584.8	\$ 495.1	\$ 89.7	18.1 %	33.8%	35.0%	(1.2)%

For the year ended December 31, 2018, cost of revenues was \$584.8 million compared to \$495.1 million for the year ended December 31, 2017, an increase of \$89.7 million, or 18.1%. Our gross margin for the year ended December 31, 2018 was 33.8% compared to 35.0% for year ended December 31, 2017, a decrease of 120 basis points (“bps”).

The increase in cost of revenues in Insurance of \$15.5 million was primarily due to an increase in employee-related costs of \$15.9 million on account of higher headcount and wage inflation, technology and infrastructure costs of \$1.7 million, travel and other operating costs of \$1.1 million, partially offset by lower professional fees of \$2.0 million and currency movements net of hedging of \$1.2 million. Gross margin in Insurance increased by 10 bps during the year ended December 31, 2018 compared to the year ended December 31, 2017, primarily due to higher revenues and margin expansion in existing clients.

The increase in cost of revenues in Healthcare of \$17.4 million was primarily due to an increase in employee-related costs of \$15.2 million, technology and infrastructure costs of \$3.8 million and other operating cost of \$0.5 million, on account of our acquisition of Health Integrated in 2017, partially offset by decrease in other operating costs of \$1.5 million and currency movements net of hedging of \$0.6 million. Gross margin in Healthcare decreased by 14.9% during the year ended December 31, 2018 compared to the year ended December 31, 2017, primarily due to the impact of our Health Integrated business, lower revenue from existing clients and the termination of certain client contracts.

The decrease in cost of revenues in TT&L of \$0.2 million was primarily due to currency movements net of hedging of \$0.7 million, partially offset by an increase in employee-related costs of \$0.5 million. Gross margin in TT&L decreased by 20 bps due to margin contraction in existing clients during the year ended December 31, 2018 compared to the year ended December 31, 2017.

The increase in cost of revenues in F&A of \$7.8 million was primarily due to an increase in employee-related costs of \$6.4 million on account of higher headcount and wage inflation, higher technology and infrastructure costs of \$1.2 million, and travel costs of \$1.1 million, partially offset by other operating costs of \$0.3 million and currency movements net of hedging of \$0.6 million. Gross margin in F&A decreased by 100 bps during the year ended December 31, 2018 compared to the year ended December 31, 2017, primarily due to higher operating expenses associated with the initiation of services for new clients.

The increase in cost of revenues in All Other of \$1.6 million was primarily due to an increase in employee-related costs of \$2.9 million on account of higher headcount and wage inflation, partially offset by other operating costs of \$0.3 million and currency movements net of hedging of \$0.8 million. Gross margin in All Other increased by 120 bps during the year ended December 31, 2018 compared to the year ended December 31, 2017, primarily due to higher revenues in our Consulting operating segment.

The increase in cost of revenues in Analytics of \$47.6 million was primarily due to an increase in employee-related costs of \$36.8 million on account of higher headcount and wage inflation, including incremental cost related to our acquisition of SCIO in July 2018 of \$19.9 million. The remaining increase was attributable to other operating costs of \$11.8 million, partially offset by currency movements net of hedging of \$1.0 million. Gross margin in Analytics increased by 50 bps during the year ended December 31, 2018 compared to the year ended December 31, 2017, primarily as a result of increased gross margin from our SCIO acquisition.

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

	Year ended December 31,		Change	Percentage change
	2018	2017		
	(dollars in millions)			
General and administrative expenses	\$ 116.2	\$ 102.6	\$ 13.6	13.4%
Selling and marketing expenses	63.6	53.4	10.2	19.2%
Selling, general and administrative expenses	\$ 179.8	\$ 156.0	\$ 23.8	15.3%
As a percentage of revenues	20.4%	20.5%		

The increase in SG&A expenses of \$23.8 million was primarily due to an increase in employee-related costs of \$18.9 million, including incremental costs related to our SCIO acquisition in July 2018 and Health Integrated acquisition in December 2017 of \$12.8 million. There was a further increase in infrastructure and other operating costs of \$4.4 million related to the above described acquisitions. The remaining increase of \$1.6 million due to continued investments in strategic initiatives, product development, digital technology, advance automation and robotics, partially offset by currency movements net of hedging of \$1.1 million.

Depreciation and Amortization Expense.

	Year ended December 31,		Change	Percentage change
	2018	2017		
	(dollars in millions)			
Depreciation expense	\$ 28.2	\$ 24.5	\$ 3.7	14.7%
Intangible amortization expense	20.4	14.0	6.4	45.8%
Depreciation and amortization expense	\$ 48.6	\$ 38.5	\$ 10.1	26.0%
As a percentage of revenues	5.5%	5.1%		

The increase in intangibles amortization expense of \$6.4 million was primarily due to amortization of intangibles associated with our SCIO acquisition in July 2018 and Health Integrated acquisition in December 2017. The increase in depreciation expense of \$3.7 million was due to depreciation related to our new operating centers commenced during 2017 to support our business growth and depreciation associated with our acquisitions.

Impairment Charges

	Year ended December 31,		Change	Percentage change
	2018	2017		
	(dollars in millions)			
Impairment charges	\$ 20.1	\$ —	\$ 20.1	N/A
As a percentage of revenues	2.3%	—		

During the fourth quarter of 2018, we recognized an impairment charge of \$20.1 million to write down the carrying value of goodwill of \$14.2 million and intangible assets of \$5.9 million to their fair values related to our Health Integrated reporting unit within our Healthcare operating segment. The primary factors contributing to an impairment charge were (i) revenues and profitability for the Health Integrated business in 2018 were significantly lower than our budget and (ii) significant changes to the Company’s estimated future cash flows and long-term growth assumptions driven by loss of customer contracts, cost pressures and the Company’s most recent views of the long-term outlook for the Health Integrated business. See Note 10 to our consolidated financial statements.

Income from Operations. Income from operations decreased by \$22.9 million, or 31.5%, from \$72.7 million for the year ended December 31, 2017 to \$49.8 million for the year ended December 31, 2018 primarily due to impairment charges of \$20.1 million. As a percentage of revenues, income from operations decreased from 9.5% for the year ended December 31, 2017 to 5.6% for the year ended December 31, 2018.

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Foreign Exchange Gain/(Loss). Net foreign exchange gains and losses are primarily attributable to movement of the U.S. dollar against the Indian rupee, the U.K. pound sterling and the Philippine peso during the year ended December 31, 2018. The average exchange rate of the U.S. dollar against the Indian rupee increased from 64.93 during the year ended December 31, 2017 to 68.48 during the year ended December 31, 2018. The average exchange rate of the U.K. pound sterling against the U.S. dollar increased from 1.30 during the year ended December 31, 2017 to 1.33 during the year ended December 31, 2018. The average exchange rate of the U.S. dollar against the Philippine peso increased from 50.38 during the year ended December 31, 2017 to 52.69 during the year ended December 31, 2018.

We recorded a net foreign exchange gain of \$4.8 million for the year ended December 31, 2018 compared to the net foreign exchange gain of \$2.8 million for the year ended December 31, 2017.

Interest expense. Interest expense increased from \$1.9 million for the year ended December 31, 2017 to \$7.2 million for the year ended December 31, 2018 primarily due to increase in borrowings under our new credit facility, issuance of convertible notes and higher effective interest rates.

Other Income, net

	Year ended December 31,		Change	Percentage change
	2018	2017		
	(dollars in millions)			
Gain on sale and mark-to-market of mutual funds	\$ 10.0	\$ 8.8	\$ 1.2	13.7%
Interest and dividend income	1.9	1.6	0.3	15.3%
Others, net	1.1	1.0	0.1	18.3%
Other income, net	\$ 13.0	\$ 11.4	\$ 1.6	14.3%

Other income, net increased by \$1.6 million, from \$11.4 million for the year ended December 31, 2017 to \$13.0 million for the year ended December 31, 2018 primarily due to higher return on mutual fund investments of \$1.2 million and interest and dividend income of \$0.3 million.

Income Tax Expense. We recorded income tax expense of \$3.4 million and \$36.1 million for the year ended December 31, 2018 and 2017, respectively. The effective tax rate decreased from 42.5% during the year ended December 31, 2017 to 5.6% during the year ended December 31, 2018 primarily as a result of: (i) a reduction in federal statutory tax rate and (ii) the impact of one-time transition tax of \$27.2 million on the mandatory deemed repatriation of accumulated earnings and profits (“E&P”) of foreign subsidiaries and deferred tax re-measurement of \$1.9 million under the Tax Reform Act, during the year ended December 31, 2017 compared to \$0.2 million during the year ended December 31, 2018. See Note 22 to our consolidated financial statements.

Net Income. Net income increased from \$48.9 million for the year ended December 31, 2017 to \$56.7 million for the year ended December 31, 2018, primarily due to decrease in income tax expense of \$32.7 million, increase in foreign exchange gains of \$2.0 million and other income of \$1.6 million, partially offset by lower income from operation of \$22.9 million, higher interest expense of \$5.3 million and loss from equity-method investment of \$0.3 million. As a percentage of revenues, net income was 6.4% in each of the years ended December 31, 2018 and 2017.

Liquidity and Capital Resources

	Year ended December 31,		
	2019	2018	2017
	(dollars in millions)		
Opening cash, cash equivalents and restricted cash	\$ 104.1	\$ 94.3	\$ 220.4
Net cash provided by operating activities	168.4	92.4	113.2
Net cash used for investing activities	(51.4)	(277.5)	(222.7)
Net cash (used for)/provided by financing activities	(93.1)	197.8	(20.5)
Effect of exchange rate changes	(1.0)	(2.9)	3.9
Closing cash, cash equivalents and restricted cash	<u>\$ 127.0</u>	<u>\$ 104.1</u>	<u>\$ 94.3</u>

As of December 31, 2019 and 2018, we had \$321.4 million and \$280.4 million, respectively, in cash, cash equivalents and short-term investments, of which \$250.4 million and \$234.1 million, respectively, is located in foreign jurisdictions that upon distribution may be subject to withholding and other taxes and we do not currently intend to distribute such amounts. If, in the future, we change our intention regarding distributions, additional taxes may be required and would be recorded in the period the intention changes.

Operating Activities: Cash flows provided by operating activities were \$168.4 million for the year ended December 31, 2019 as compared to cash flows provided by operating activities of \$92.4 million during the year ended December 31, 2018. Generally, factors that affect our earnings, for instance, pricing, volume of services, costs and productivity, affect our cash flows used or provided from operations in a similar manner. However, while management of working capital, including timing of collections and payments affects operating results only indirectly, the impact on the working capital requirements and cash flows provided by operating activities can be significant.

Cash flows provided by operating activities for the year ended December 31, 2019 was \$168.4 million. This comprised of net income plus the net effect of non-cash items, such as depreciation and amortization expense, stock-based compensation expense, amortization of operating lease right-of-use assets, unrealized gains on short-term investment, deferred income taxes, impairment charges and others aggregating to \$156.2 million. The primary working capital use of cash of \$34.1 million during the year ended December 31, 2019 was driven by decrease in operating lease liabilities and increase in accounts receivables, and other assets. The primary working capital sources of cash of \$46.3 million was driven by an increase in accrued employee costs, accrued expenses and other liabilities, deferred revenue, accounts payable and decrease in advance income tax, prepaid expenses and other current assets.

Cash flows provided by operating activities for the year ended December 31, 2018 was \$92.4 million. This comprised of net income plus the net effect of non-cash items, such as depreciation and amortization expense, stock-based compensation expense, deferred income taxes, impairment charges and others aggregating to \$133.0 million. The primary working capital use of cash of \$41.9 million during the year ended December 31, 2018 was driven by an increase in accounts receivables, advance income tax, prepaid expenses and other assets. The primary working capital sources of cash of \$1.3 million was driven by higher accrued employee costs.

Cash flows provided by operating activities for the year ended December 31, 2017 was \$113.2 million. This comprised of net income plus the net effect of non-cash items, such as depreciation and amortization expense, stock-based compensation expense, allowance for doubtful accounts receivables and others aggregating to \$116.2 million. The primary working capital use of cash of \$29.3 million was driven by an increase in accounts receivables, other assets and decrease in deferred revenue. The primary working capital sources of cash of \$26.3 million was driven by decrease in net advance tax and higher accrued expenses and other liabilities, accrued employee costs and accounts payable.

Investing Activities: Cash flows used for investing activities were \$51.4 million for the year ended December 31, 2019 as compared to cash flows used for investing activities of \$277.5 million for the year ended December 31, 2018. The decrease is mainly due to higher cash used for the SCIO acquisition of \$231.8 million during the year ended December 31, 2018. This was partially offset by net higher purchase of investments of \$11.0 million during the year ended December 31, 2019 as compared to net purchase of investments of \$5.2 million during the year ended December 31, 2018.

Cash flows used for investing activities were \$277.5 million for the year ended December 31, 2018 as compared to cash flows used for investing activities of \$222.7 million for the year ended December 31, 2017. The increase of \$54.8 million was primarily due to an increase in net cash used for business acquisitions of \$208.5 million during the year ended December 31, 2018. This was partially offset by net purchase of investments of \$5.2 million during the year ended December 31, 2018 as

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compared to net purchase of investments of \$161.3 million during the year ended December 31, 2017. See Note 10 to our consolidated financial statements herein for further detail of our business acquisitions.

Financing Activities: Cash flows used for financing activities were \$93.1 million during the year ended December 31, 2019 as compared to cash flows provided by financing activities of \$197.8 million during the year ended December 31, 2018. The decrease in cash flows provided from financing activities was primarily due to higher net borrowings of \$240.4 million (net of repayment) under our Credit Facility and Convertible Notes (as described below in “Financing Arrangements”) during the year ended December 31, 2018 as compared to net repayments (net of proceeds) of \$52.2 million during the year ended December 31, 2019. This was partially offset by lower purchases of treasury stock by \$1.7 million under our share repurchase program during the year ended December 31, 2019 as compared to the year ended December 31, 2018.

Cash flows provided by financing activities were \$197.8 million during the year ended December 31, 2018 as compared to cash flows used for financing activities of \$20.5 million during the year ended December 31, 2017. The increase in cash flows provided by financing activities was primarily due to higher proceeds from borrowings of \$225.0 million (net of repayments) under our Credit Facility and Convertible Notes (as described below in “Financing Arrangements”) during the year ended December 31, 2018, partially offset by lower proceeds from exercise of stock options of \$7.2 million during the year ended December 31, 2018.

We expect to use cash from operating activities to maintain and expand our business by making investments, primarily related to new facilities and capital expenditures associated with leasehold improvements to build our facilities, and purchase telecommunications equipment and computer hardware and software in connection with managing client operations. We incurred \$40.1 million of capital expenditures in the year ended December 31, 2019. We expect to incur capital expenditures of between \$40.0 million to \$48.0 million in 2020, primarily to meet our growth requirements, including additions to our facilities as well as investments in technology applications, product development, digital technology, advanced automation, robotics and infrastructure.

In connection with any tax assessment orders that have been issued or may be issued against us or our subsidiaries, we may be required to deposit additional amounts with respect to such assessment orders (see Note 26 to our consolidated financial statements herein for further details). We anticipate that we will continue to rely upon cash from operating activities to finance our smaller acquisitions, capital expenditures and working capital needs. If we have significant growth through acquisitions, we may need to obtain additional financing.

Financing Arrangements (Debt Facility)

Credit Agreement

On November 21, 2017, we and each of our wholly owned material domestic subsidiaries entered into a Credit Agreement with certain lenders, and Citibank, N.A. as Administrative Agent (the “Credit Agreement”). The Credit Agreement provides for a \$200.0 million revolving credit facility (the “Credit Facility”) with an option to increase the commitments by up to \$100.0 million, subject to certain approvals and conditions as set forth in the Credit Agreement. The Credit Agreement also includes a letter of credit sub facility. The 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 Credit Agreement may be used for working capital and general corporate purposes, including permitted acquisitions. On July 2, 2018, we exercised our option under the Credit Agreement to increase the commitments by \$100.0 million thereby utilizing the entire revolver under the Credit Facility of \$300.0 million, to fund the SCIO acquisition. The incremental commitments were made pursuant to (and constitute part of) the existing commitments and shall be subject to the terms and conditions applicable to the existing commitments as set forth in the Credit Agreement.

Depending on the type of borrowing, loans under the Credit Agreement bear interest at a rate equal to the specified prime rate (alternate base rate) or adjusted LIBO rate, plus, in each case, an applicable margin. The applicable margin is tied to our 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 Credit Agreement are subject to a commitment fee which is also tied to our 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 Credit Facility carried an effective interest rate of 4.0% and 3.4% per annum, respectively, during the year ended December 31, 2019 and 2018. See Item 1A-“Risk Factors- We may be required to transition from the use of the LIBOR interest rate index in the future. We could be unable to refinance our outstanding indebtedness on reasonable terms or at all.”

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Obligations under the Credit Agreement are guaranteed by our material domestic subsidiaries and are secured by all or substantially all of our assets and that of our material domestic subsidiaries. The 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 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 December 31, 2019, we were in compliance with all financial and non-financial covenants listed under the Credit Agreement.

We entered into a second amendment (the "Amendment") to our Credit Agreement, as amended, among the Company, as borrower, with certain lenders, and Citibank, N.A. as Administrative Agent to, among other things, permit the issuance by the Company of the Notes, and settlement upon maturity or conversion thereof, in accordance with the Investment Agreement, the indenture dated as of October 4, 2018 and the other documents entered into in connection therewith.

As of December 31, 2019, we had outstanding indebtedness under the credit facility of \$99.0 million of which \$40.0 million is expected to be repaid within the next twelve months and is included under "current portion of long-term borrowings" and of which \$59.0 million is included under "long-term borrowings, less current portion" in the consolidated balance sheets. As of December 31, 2018, we had outstanding indebtedness under the credit facility of \$150.0 million, of which \$20.0 million was included under "current portion of long-term borrowings," and the balance of \$130.0 million was included under "long-term borrowings, net of current portion" in the consolidated balance sheets.

Convertible Senior Notes

On October 1, 2018, we entered into an investment agreement (the "Investment Agreement") with Orogen Echo LLC, an affiliate of The Orogen Group LLC, relating to the issuance to the Purchaser of \$150.0 million in an aggregate principal amount of 3.50% Convertible Senior Notes due October 1, 2024 (the "Notes"). The Notes were issued on October 4, 2018. The Notes bear interest at a rate of 3.50% per annum, payable semi-annually in arrears in cash on April 1 and October 1 of each year. During the year ended December 31, 2019 and 2018, we recognized interest expense of \$5.2 million and \$1.3 million, respectively, on the Notes. The Notes are convertible at an initial conversion rate of 13.3333 shares of the common stock per one thousand dollar principal amount of the Notes (which represents an initial conversion price of approximately \$75 per share). With certain exceptions, upon a fundamental change, as defined in the Indenture, the holders of the Notes may require us to repurchase all or part of the principal amount of the Notes at a purchase price equal to the principal amount plus accrued and unpaid interest. We may redeem the principal amount of the Notes, at our option, in whole but not in part, at a purchase price equal to the principal amount plus accrued and unpaid interest on or after October 1, 2021, if the closing sale price of the common stock exceeds 150% of the then-current conversion price for 20 or more trading days in the 30 consecutive trading day period preceding our exercise of this redemption right (including the trading day immediately prior to the date of the notice of redemption). We may elect to settle conversions of the Notes by paying or delivering, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock. We used the proceeds from the issuance of Notes to repay \$150.0 million of our outstanding borrowings under the Credit Facility.

We accounted for the liability and equity components of the Notes separately to reflect its non-convertible debt borrowing rate. The estimated fair value of the liability component at issuance of \$133.1 million was determined using a discounted cash flow technique, which considered debt issuances with similar features of our debt, excluding the conversion feature. The resulting effective interest rate for the Notes was 5.75% per annum. The excess of the gross proceeds received over the estimated fair value of the liability component totaling \$16.9 million, was allocated to the conversion feature (equity component, recorded as additional paid-in capital) with a corresponding offset recognized as a discount to reduce the net carrying value of the Notes. The discount is being amortized to interest expense over a six-year period ending October 1, 2024 (the expected life of the liability component) using the effective interest method. During the year ended December 31, 2019 and 2018, we amortized \$2.5 million and \$0.6 million, respectively of the discount to interest expense on the Notes. The unamortized debt discount on the Notes as of December 31, 2019 and 2018 was \$13.8 million and \$16.3 million, respectively.

Under the terms of the Notes, we are not prohibited from paying cash dividends unless payment would trigger an event of default or if one currently exists. We do not anticipate paying any cash dividends in the foreseeable future.

Off-Balance Sheet Arrangements

In the ordinary course of business, we provide standby letters of credit to third parties primarily for facility leases. As of December 31, 2019 and 2018, we had outstanding letters of credit of \$0.5 million and \$nil, respectively, that were not recognized

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in our consolidated balance sheets. These are not reasonably likely to have, a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. We had no other off-balance sheet arrangements or obligations.

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2019:

	Payment Due by Period				
	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
	(dollars in millions)				
Finance leases	\$ 0.3	\$ 0.4	\$ 0.1	\$ —	\$ 0.8
Operating leases ^(a)	26.9	45.3	34.3	24.0	130.5
Purchase obligations	6.5	—	—	—	6.5
Other obligations ^(b)	2.4	4.2	3.4	5.7	15.7
Borrowings					
Principal payments	40.9	59.0	150.0	—	249.9
Interest payments ^(c)	7.5	11.8	10.5	—	29.8
Total contractual cash obligations ^(d)	<u>\$ 84.5</u>	<u>\$ 120.7</u>	<u>\$ 198.3</u>	<u>\$ 29.7</u>	<u>\$ 433.2</u>

(a) Represents lease liabilities payable for the expected lease term.

(b) Represents estimated payments under the Gratuity Plan.

(c) Interest on borrowings is calculated based on the interest rate on the outstanding borrowings as of December 31, 2019.

(d) Excludes \$1.0 million related to uncertain tax positions, since the extent of the amount and timing of payment is currently not reliably estimable or determinable.

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

Our operations centers in the Philippines are registered with the Philippine Economic Zone Authority (“PEZA”). The registration provides us with certain fiscal incentives on the import of capital goods and local purchase of services and materials and requires that ExlService Philippines, Inc. to meet certain performance and investment criteria. We believe that these centers have in the past satisfied and will continue to satisfy the required criteria.

Recent Accounting Pronouncements

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

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

General

Market risk is the loss of future earnings, fair values or future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market risk sensitive instruments. Market risk is attributable to all market sensitive financial instruments including foreign currency receivables and payables.

Our exposure to market risk is a function of our expenses and revenue generating activities in foreign currencies. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss. We manage market risk through our treasury operations. Our senior management and our Board of Directors approve our treasury operations' objectives and policies. The responsibilities of our treasury operations include management of cash resources, implementing hedging strategies for foreign currency exposures, borrowing strategies and ensuring compliance with market risk limits and policies.

Components of Market Risk

Foreign Currency Risk. Our exposure to market risk arises principally from exchange rate risk. Although substantially all of our revenues are denominated in U.S. dollars 85.9% in the year ended December 31, 2019 or U.K. pounds sterling 10.2% in the year ended December 31, 2019, a substantial portion of our expenses were incurred and paid in Indian rupees and Philippine peso 25.6% and 7.9% respectively, in the year ended December 31, 2019. We also incur expenses in U.S. dollars, and currencies of the other countries in which we have operations. The exchange rates among the Indian rupee, the Philippine peso and the U.S. dollar have changed substantially in recent years and may fluctuate substantially in the future.

Our exchange rate risk primarily arises from our foreign currency revenues, expenses incurred by our foreign subsidiaries and foreign currency accounts receivable and payable. The average exchange rate of the Indian rupee against the U.S. dollar increased from 68.48 during the year ended December 31, 2018 to 70.36 during the year ended December 31, 2019, representing a depreciation of 2.7%. The average exchange rate of the Philippine peso against the U.S. dollar decreased from 52.69 during the year ended December 31, 2018 to 51.57 during the year ended December 31, 2019, representing an appreciation of 2.1%. Based upon our level of operations during the year ended December 31, 2019 and excluding any hedging arrangements that we had in place during that period, a 10% appreciation/depreciation in the Indian rupee against the U.S. dollar would have increased/decreased our revenues by approximately \$7.3 million and increased/decreased our expenses incurred and paid in Indian rupees by approximately \$23.4 million in the year ended December 31, 2019, respectively. Similarly, a 10% appreciation/depreciation in the Philippine Peso against the U.S. dollar would have increased/decreased our revenues by approximately \$0.3 million and increased/decreased our expenses incurred and paid in Philippine Peso by approximately \$7.2 million in the year ended December 31, 2019.

In order to mitigate our exposure to foreign currency fluctuation risks and minimize the earnings and cash flow volatility associated with forecasted transactions denominated in certain foreign currencies, we enter into foreign currency forward contracts that are designated as cash flow hedges. These contracts must be settled on the day of maturity or may be canceled subject to the receipts or payments of any gains or losses respectively, equal to the difference between the contract exchange rate and the market exchange rate on the date of cancellation. We do not enter into foreign currency forward contracts for speculative or trading purposes. As such, we may not purchase adequate contracts to insulate ourselves from Indian rupee and Philippine peso foreign exchange currency risks. In addition, any such contracts may not perform adequately as a hedging mechanism. We may, in the future, adopt more active hedging policies, and have done so in the past.

The impact on earnings and/or cash flows related to these foreign currency forward contracts is immaterial as the impact of the maturing cash flow hedges in respective periods are intended to offset the foreign currency impact on the related expenses. Further, a significant number of our customer contracts include protection against foreign exchange rate fluctuations which minimizes the impact of volatility in the exchange rates on our operating results.

Cash flow hedges with notional amounts of \$410.4 million (including \$4.3 million of range forward contracts) and \$362.4 million (including \$6.9 million of range forward contracts) were outstanding as at December 31, 2019 and 2018, respectively, with maturity periods of one to forty five-months. The fair value of these cash flow hedges as of December 31, 2019 and 2018 was \$4.6 million and (\$0.2) million respectively and is included in Accumulated Other Comprehensive loss on our Consolidated Balance Sheets. During the year ended December 31, 2019 we recognized \$4.0 million as a foreign exchange gain from the maturing cash flow hedges, which was largely offset by the foreign exchange loss on the related expenses of \$4.3 million. The net impact on earnings for the year ended December 31, 2019 from the maturing cash flow hedges was insignificant, offset by an insignificant foreign currency impact on the related expenses.

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We also enter into foreign currency forward contracts to economically hedge our intercompany balances and other monetary assets and liabilities denominated in currencies other than functional currencies. These derivatives do not qualify as fair value hedges under ASC No. Topic 815, *Derivatives and Hedging* ("ASC 815"). Changes in the fair value of these derivatives are recognized in the consolidated statements of income and are included in foreign exchange gain/(loss). These derivative instruments do not subject us to material balance sheet risk due to exchange rate movements because gains and losses on the settlement of these derivatives are intended to offset revaluation losses and gains on the assets and liabilities being hedged. Forward exchange contracts with notional amounts of \$124.0 million, GBP 10.8 million and EUR 1.3 million were outstanding at December 31, 2019 compared to \$125.5 million, GBP 15.6 million and EUR 0.5 million outstanding at December 31, 2018. The fair values of these derivative instruments as of December 31, 2019 and 2018 were insignificant in both year and are included in the "foreign exchange gain/(loss)" in our Consolidated Statements of Income. At December 31, 2019, the outstanding derivative instruments had maturities of 31 days or less.

Interest Rate Risk. As described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," on November 21, 2017 we entered into the Credit Agreement that provides for a \$200.0 million revolving credit facility and a letter of credit sub-facility. We have an option to increase the commitments under the Credit Facility by up to an additional \$100.0 million. On July 2, 2018, we exercised our option under the Credit Agreement to increase the commitments to \$300.0 million. The Credit Facility has a maturity date of November 21, 2022 and is voluntarily pre-payable from time to time without premium or penalty.

Depending on the type of borrowing, loans under the Credit Facility 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 0.00% to 0.75% per annum with respect to loans ("ABR Loans") pegged to the specified prime rate, and 1.00% to 1.75% per annum on loans ("Eurodollar Loans") pegged to the adjusted LIBO rate (such applicable margin, the "Applicable Rate"). The revolving credit commitments under the Credit Agreement are subject to a commitment fee. The commitment fee is also tied to the Company's 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. A 50 basis point increase or decrease in interest rates may impact our interest expense for the year ended December 31, 2019 by approximately \$0.7 million. See Item 1A-"Risk Factors- We may be required to transition from the use of the LIBOR interest rate index in the future. We could be unable to refinance our outstanding indebtedness on reasonable terms or at all."

In October 2018, we issued the Notes with an aggregate principal amount of \$150.0 million (see Note 18, Borrowings). The Notes bear interest at a fixed rate, so we have no financial statement impact from changes in interest rates. However, changes in market interest rates impact the fair value of the convertible notes along with other variables such as our credit spreads and the market price and volatility of our common stock.

We had cash, cash equivalents and short-term investments totaling \$321.4 million and \$280.4 million at December 31, 2019 and 2018, respectively. These amounts were invested principally in a short-term investment portfolio primarily comprised of highly-rated debt mutual funds, money market accounts and time deposits. The cash and cash equivalents are held for potential acquisitions of complementary businesses or assets, capital expenditures, working capital requirements and general corporate purposes. We do not enter into these investments for trading or speculative purposes. We believe that we have no material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. The interest income from these funds is subject to fluctuations due to changes in interest rates. Declines in interest rates would reduce our future investment income. A 50 basis point increase or decrease in short term rates would have impacted our interest income for the year ended December 31, 2019 by approximately \$1.0 million.

Credit Risk. As of December 31, 2019 and 2018, we have accounts receivable of \$171.9 million and \$164.8 million, respectively. We believe that our credit policies reflect normal industry terms and business risk. We do not anticipate non-performance by the counterparties and, accordingly, do not require collateral. Credit losses and write-offs of accounts receivable balances historically have not been material. No single client owed more than 10% of accounts receivable balance as on December 31, 2019 and 2018.

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ITEM 8. Financial Statements and Supplementary Data

The financial statements required to be filed pursuant to this Item 8 are appended to this Annual Report on Form 10-K. A list of the financial statements filed herewith is found at Item 15. "Exhibits and Financial Statement Schedules."

ITEM 9. Changes in and Disagreement with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to allow timely decisions regarding required disclosure. In connection with the preparation of this Annual Report on Form 10-K, the Company's management carried out an evaluation, under the supervision and with the participation of the CEO and CFO, of the effectiveness and operation of the Company's disclosure controls and procedures as of December 31, 2019. Based upon that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures, as of December 31, 2019, were effective.

Management's Responsibility for Financial Statements

Responsibility for the objectivity, integrity and presentation of the accompanying financial statements and other financial information presented in this report rests with our management. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP"). The financial statements include amounts that are based on estimates and judgments which management believes are reasonable under the circumstances.

Deloitte & Touche LLP, an independent registered public accounting firm, is retained to audit the Company's consolidated financial statements and the effectiveness of our internal control over financial reporting. Its accompanying reports are based on audits conducted in accordance with the standards of the Public Company Accounting Oversight Board.

The Audit Committee of the board of directors is composed solely of independent directors and is responsible for recommending to the Board of Directors the independent public accounting firm to be retained for the coming year. The Audit Committee meets regularly and privately with the independent public accountants, with the Company's internal auditors and with management to review accounting, auditing, internal control and financial reporting matters.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act. Those rules define internal control over financial reporting as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the U.S. The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the U.S.;
- provide reasonable assurance that receipts and expenditures are being made only in accordance with the authorization of our management and our board of directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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Our management, under the supervision and with the participation of the CEO and CFO, assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria described in “*Internal Control—Integrated Framework*” issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Management’s assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of the board of directors. Based on this assessment and those criteria, management concluded that we maintained effective internal control over financial reporting as of December 31, 2019. See Deloitte & Touche LLP’s accompanying report on their audit of our internal controls over financial reporting.

Changes in Internal Control over Financial Reporting

During the three months ended December 31, 2019, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None.

PART III.

ITEM 10. Directors, Executive Officers and Corporate Governance

Code of Ethics.

We have adopted a code of conduct and ethics that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. Our code of conduct and ethics can be found posted in the investor relations section on our website at <http://ir.exlservice.com/corporate-governance>. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of our code of conduct and ethics by posting such information on our website at the address and the location specified above.

The additional information required by this Item 10 will be set forth in the definitive proxy statement for our 2020 Annual Meeting of Stockholders (the “Proxy Statement”), including under the headings “Our Board of Directors”, “Our Executive Officers” and “Corporate Governance — Committees — Audit Committee”, “— Committees — Nominating and Governance Committee” and, to the extent included, “— Delinquent Section 16(a) Reports,” and is incorporated herein by reference. We intend to file the Proxy Statement with the SEC within 120 days after the fiscal year end of December 31, 2019.

ITEM 11. Executive Compensation

We incorporate by reference the information responsive to this Item appearing in our Proxy Statement, including under the headings “Executive Compensation — Compensation Discussion and Analysis”, “— Compensation Committee Report”, “— Summary Compensation Table for Fiscal Year 2019”, “— Grants of Plan-Based Awards Table for Fiscal Year 2019”, “Outstanding Equity Awards at Fiscal 2019 Year-End”, “Option Exercises and Stock Vested During Fiscal Year 2019”, “— Pension Benefits for Fiscal Year 2019”, “— Potential Payments upon Termination or Change in Control at Fiscal 2019 Year-End”, “— Director Compensation for Fiscal Year 2019”, “— Risk and Compensation Policies” and “Corporate Governance — Compensation Committee Interlocks and Insider Participation”.

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ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

We incorporate by reference the information responsive to this Item appearing in our Proxy Statement, including under the heading “Principal Stockholders”.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

We incorporate by reference the information responsive to this Item appearing in our Proxy Statement, including under the headings “Certain Relationships and Related Person Transactions” and “Corporate Governance — Director Independence”.

ITEM 14. Principal Accountant Fees and Services

We incorporate by reference the information responsive to this Item appearing in our Proxy Statement, including under the heading “Ratification of the Appointment of Independent Registered Public Accounting Firm — Audit and Non-Audit Fees”.

PART IV.

ITEM 15. Exhibits and Financial Statement Schedules

(a) 1. Consolidated Financial Statements.

The consolidated financial statements required to be filed in the Annual Report on Form 10-K are listed on page F-1 hereof. The required financial statements appear on pages F-6 through F-58 hereof.

2. Financial Statement Schedules.

Financial statement schedules have been omitted since they are either not required, not material or the information is otherwise included in our consolidated financial statements or the notes to our consolidated financial statements.

3. Exhibits.

The Exhibits filed as part of this Annual Report on Form 10-K are listed on the Exhibit Index immediately preceding such Exhibits, which Exhibit Index is incorporated in this Annual Report on Form 10-K by reference.

(b) Exhibits. See Item 15(a)(3) above.

(c) Financial Statement Schedules. See Item 15(a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned hereunto duly authorized.

Date: February 27, 2020

EXLSERVICE HOLDINGS, INC.

By: /S/ MAURIZIO NICOLELLI
MAURIZIO NICOLELLI
Chief Financial Officer
(Duly Authorized Signatory, Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/S/ ROHIT KAPOOR</u> Rohit Kapoor	Chief Executive Officer, Vice-Chairman and Director (Principal Executive Officer)	February 27, 2020
<u>/S/ GAREN K. STAGLIN</u> Garen K. Staglin	Chairman of the Board	February 27, 2020
<u>/S/ MAURIZIO NICOLELLI</u> Maurizio Nicoelli	Chief Financial Officer (Principal Financial and Accounting Officer)	February 27, 2020
<u>/S/ ANNE E. MINTO</u> Anne E. Minto	Director	February 27, 2020
<u>/S/ CLYDE W. OSTLER</u> Clyde W. Ostler	Director	February 27, 2020
<u>/S/ DAVID B. KELSO</u> David B. Kelso	Director	February 27, 2020
<u>/S/ DEBORAH KERR</u> Deborah Kerr	Director	February 27, 2020
<u>/S/ NITIN SAHNEY</u> Nitin Sahney	Director	February 27, 2020
<u>/S/ SOM MITTAL</u> Som Mittal	Director	February 27, 2020
<u>/S/ JAYNIE M. STUDENMUND</u> Jaynie M. Studenmund	Director	February 27, 2020
<u>/S/ VIKRAM S. PANDIT</u> Vikram S. Pandit	Director	February 27, 2020

INDEX TO EXHIBITS

The following exhibits are being filed as part of this report or incorporated by reference as indicated therein:

- 2.1* [Agreement of Merger, dated April 28, 2018, by and among ExlService.com, LLC, ExlService Cayman Merger Sub, and SCIOInspire Holdings Inc. \(incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K \(File No. 1-33089\) filed on May 1, 2018\).](#)
- 3.1 [Amended and Restated Certificate of Incorporation of the Company \(incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K \(File No. 1-33089\) filed on October 25, 2006\).](#)
- 3.2 [Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Company \(incorporated by reference to Annex A to the Company's Definitive Proxy Statement on Schedule 14A \(File No. 1-33089\) filed on April 26, 2019\).](#)
- 3.3 [Fifth Amended and Restated By-laws of the Company \(incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K \(File No. 1-33089\) filed on June 19, 2019\).](#)
- 4.1 [Registration Rights Agreement \(incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K \(File No. 1-33089\) filed on October 25, 2006\).](#)
- 4.2 [Indenture, dated as of October 4, 2018, by and between the Company and Citibank, N.A., as trustee \(incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K \(File No. 1-33089\) filed on October 4, 2018\).](#)
- 4.3 [Description of Common Stock.](#)
- 10.1+ [Amended and Restated Employment and Non-Competition Agreement, dated as of September 19, 2017 between ExlService Holdings, Inc. and Rohit Kapoor, dated as of September 19, 2017 \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q \(File No. 1-33089\) filed on October 26, 2017\).](#)
- 10.2+ [Employment Agreement, dated July 31, 2002, between ExlService Holdings, Inc. and Pavan Bagai \(incorporated by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 \(Registration No. 333-121001\) filed on December 6, 2004\).](#)
- 10.3+ [Employment Agreement, dated as of September 15, 2014, between ExlService Holdings, Inc. and Nalin Kumar Miglani \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q \(File No. 1-33089\) filed on April 29, 2016\).](#)
- 10.4+ [ExlService Holdings, Inc. 2006 Omnibus Plan \(incorporated by reference to Exhibit 10.20 of Amendment 3 to the Company's Registration Statement on Form S-1 \(Registration No. 333-121001\) filed July 28, 2006\).](#)
- 10.5+ [Form of Non-Qualified Stock Option Agreement under the 2006 Omnibus Award Plan \(incorporated by reference to Exhibit 10.32 of Amendment 5 to the Company's Registration Statement on Form S-1 \(Registration No. 333-121001\) filed October 4, 2006\).](#)
- 10.6+ [ExlService Holdings, Inc. 2006 Omnibus India Subplan 2 \(incorporated by reference to Exhibit 10.38 of Amendment 6 to the Company's Registration Statement on Form S-1 \(Registration No. 333-121001\) filed October 17, 2006\).](#)
- 10.7+ [Form of Non-Qualified Stock Option Agreement under the 2006 Omnibus India Subplan 2 \(incorporated by reference to Exhibit 10.39 of Amendment 5 to the Company's Registration Statement on Form S-1 \(Registration No. 333-121001\) filed October 4, 2006\).](#)
- 10.8+ [Amendment to ExlService Holdings, Inc. 2006 Omnibus Award Plan \(incorporated by reference to Exhibit 10.43 of Amendment 5 to the Company's Registration Statement on Form S-1 \(Registration No. 333-121001\) filed October 4, 2006\).](#)
- 10.9+ [Amendment No. 2 to ExlService Holdings, Inc. 2006 Omnibus Award Plan \(incorporated by reference to Exhibit 10.46 of Amendment 6 to the Registration Statement on Form S-1 \(Registration No. 333-121001\) filed October 17, 2006\).](#)
- 10.10+ [Amendment No. 3 to ExlService Holdings, Inc. 2006 Omnibus Award Plan \(incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-8 \(Registration No. 333-157076\) filed February 2, 2009\).](#)
- 10.11+ [Form of Restricted Stock Unit Agreement \(U.S.\) under the 2006 Omnibus Award Plan \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q \(File No. 1-33089\) filed on May 1, 2014\).](#)
- 10.12+ [ExlService Holdings, Inc. 2015 Amendment and Restatement of the 2006 Omnibus Award Plan \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K \(File No. 1-33089\) filed on June 25, 2015\).](#)

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10.13+	<u>Form of Restricted Stock Unit Agreement (U.S.) under the ExlService Holdings, Inc. 2015 Amendment and Restatement of the 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 1-33089) filed on October 27, 2016).</u>
10.14+	<u>Form of Restricted Stock Unit Agreement (U.S.) under the ExlService Holdings, Inc. 2015 Amendment and Restatement of the 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.40 to the Company's Annual Report on Form 10-K (File No. 1-33089) filed on March 15, 2017).</u>
10.15+	<u>ExlService Holdings, Inc. 2018 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-33089) filed on June 20, 2018).</u>
10.16+	<u>Form of Restricted Stock Unit Agreement (U.S. Executive Officers Combined) under the 2018 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 1-33089) filed on June 20, 2018).</u>
10.17+	<u>Form of Restricted Stock Unit Agreement (International Executive Officers) under the 2018 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 1-33089) filed on June 20, 2018).</u>
10.18+	<u>Form of Restricted Stock Unit Agreement (Directors) under the 2018 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (File No. 1-33089) filed on June 20, 2018).</u>
10.19	<u>Credit Agreement, dated as of October 24, 2014, among ExlService Holdings, Inc., JPMorgan Chase Bank, N.A., as administrative agent and co-lead arranger, Citibank, N.A., as co-lead arranger, and the other Loan Parties and Lenders thereto (incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K (File No. 1-33089) filed on February 27, 2015).</u>
10.20	<u>First Amendment to Credit Agreement and Incremental Facility Agreement, dated as of February 23, 2015, by and among ExlService Holdings, Inc., each of its subsidiaries party thereto, the Lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent for the Lenders (incorporated by reference to Exhibit 10.40 to the Company's Annual Report on Form 10-K (File No. 1-33089) filed on February 27, 2015).</u>
10.21	<u>Credit Agreement, dated as of November 21, 2017, among ExlService Holdings, Inc., the other loan parties thereto, the lenders party thereto, and Citibank, N.A., as administrative agent, Citibank, N.A. and PNC Capital Markets LLC, as joint lead arrangers and joint bookrunners, and JPMorgan Chase Bank, N.A., as syndication agent (incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K (File No. 1-33089) filed on February 27, 2018).</u>
10.22	<u>First Amendment to Credit Agreement, dated as of July 2, 2018, by and among the Company and the other loan parties thereto, the lenders party thereto, and Citibank, N.A., as administrative agent (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K (File No. 1-33089) filed on February 28, 2019).</u>
10.23	<u>Second Amendment to Credit Agreement, dated as of October 1, 2018, by and among the Company and the other loan parties thereto, the lenders party thereto, and Citibank, N.A., as administrative agent (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 1-33089) filed on October 4, 2018).</u>
10.24	<u>Investment Agreement, dated as of October 1, 2018, by and between the Company and Orogen Echo LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-33089) filed on October 4, 2018).</u>
21.1	<u>Subsidiaries of the Company.</u>
23.1	<u>Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.</u>
23.2	<u>Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.</u>
31.1	<u>Certification of the Chief Executive Officer of ExlService Holdings, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of the Chief Financial Officer of ExlService Holdings, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	Inline XBRL Instance Document**

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101.SCH	Inline XBRL Taxonomy Extension Schema**
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase**
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase**
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase**
101.PRE	Inline XBRL Extension Presentation Linkbase**

104 _____ Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

*Pursuant to Item 601(b)(2) of Regulation S-K promulgated by the SEC, certain schedules to this agreement have been omitted. The Company hereby agrees to furnish supplementally to the SEC, upon its request, any or all of such omitted schedules.

**This exhibit will not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

+Indicates management contract or compensatory plan required to be filed as an Exhibit.

EXLSERVICE HOLDINGS, INC.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of ExlService Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of ExlService Holdings, Inc. (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective January 1, 2019, the Company adopted FASB ASC Topic 842, Leases, using the modified retrospective approach.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill - Refer to Notes 2 and 10 to the financial statements

Critical Audit Matter Description

The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value. The Company determines the fair value of its reporting units using the discounted cash flow model and the market approach, as applicable. The determination of fair value using the discounted cash flow model requires management to make significant judgments and estimates, which include assumptions related to long-term future growth rates and estimated future cash flows, discounted at an appropriate risk-adjusted rate. The determination of fair value using the market approach requires management to make significant assumptions related to market multiples of revenues and earnings derived from comparable publicly-traded companies with characteristics similar to the reporting unit.

The goodwill balance was approximately \$350 million as of December 31, 2019, of which approximately \$164 million has been allocated to the SCIOinspire Holdings, Inc. (SCIO) reporting unit. The SCIO reporting unit was formed as a result of the SCIO acquisition in July 2018 and its fair value was set at that time. As a result, the fair value of this reporting unit was not substantially in excess of its carrying value.

Significant estimates and assumptions are used by management to determine fair value and, thus, sensitivity in fair value may result from changes in these estimates. This requires a high degree of auditor judgment and an increased extent of efforts, including the need to involve our fair value specialists, when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the assumptions for long-term future growth rates and estimated future cash flows, and the selection of discount rates for the SCIO reporting unit included the following, among others:

- We tested the effectiveness of controls over the Company's goodwill impairment evaluation, including those over the determination of fair value of the SCIO reporting unit, such as controls related to management's forecasts and selection of discount rates.
- We evaluated management's ability to accurately forecast by comparing actual results to management's historical forecasts, reviewing internal communications between management and the Board of Directors, and reviewing forecasted information included in Company press releases, and analyst and industry reports of the Company and companies in its peer group.
- With the assistance of our fair value specialists, we evaluated the growth rates and discount rates, including testing the underlying source information and the mathematical accuracy of the calculations.
- With the assistance of our fair value specialists, we evaluated revenue and earnings multiples, including testing the underlying source information and mathematical accuracy of the calculations, and comparing the multiples selected by management to its guideline companies.
- We also evaluated all of the significant assumptions in the aggregate to determine if there is any indication of management bias.

/s/ Deloitte & Touche LLP

New York, New York
February 27, 2020

We have served as the Company's auditor since 2018.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of ExlService Holdings, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of ExlService Holdings, Inc. (the “Company”) as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company and our report dated February 27, 2020, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company’s adoption of a new accounting standard.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

New York, New York
February 27, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of ExlService Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of income, comprehensive income, equity and cash flows of ExlService Holdings, Inc. (the “Company”) for the year ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the consolidated results of its operations and its cash flows for the year ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor from 2002 to 2017.

New York, New York
February 27, 2018, except for Note 27, as to which the date is February 28, 2019

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

	As of	
	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 119,165	\$ 95,881
Short-term investments	202,238	184,489
Restricted cash	5,453	5,608
Accounts receivable, net	171,864	164,752
Prepaid expenses	13,246	11,326
Advance income tax, net	4,698	9,639
Other current assets	24,594	28,240
Total current assets	541,258	499,935
Property and equipment, net	79,142	73,510
Operating lease right-of-use assets	86,396	—
Restricted cash	2,426	2,642
Deferred tax assets, net	11,855	6,602
Intangible assets, net	73,982	95,495
Goodwill	349,529	349,984
Other assets	36,016	31,015
Investment in equity affiliate	2,484	2,753
Total assets	\$ 1,183,088	\$ 1,061,936
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 6,564	\$ 5,653
Current portion of long-term borrowings	40,867	21,423
Deferred revenue	13,436	7,722
Accrued employee costs	71,626	54,893
Accrued expenses and other current liabilities	71,023	64,169
Current portion of operating lease liabilities	24,148	—
Income taxes payable, net	1,432	1,012
Current portion of finance lease liabilities	253	223
Total current liabilities	229,349	155,095
Long-term borrowings, less current portion	194,131	263,241
Operating lease liabilities, less current portion	74,709	—
Income taxes payable	1,790	—
Deferred tax liabilities, net	966	8,445
Finance lease liabilities, less current portion	430	315
Other non-current liabilities	11,712	16,521
Total liabilities	513,087	443,617
Commitments and contingencies (Refer Note 26)		
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, 38,480,654 shares issued and 34,185,241 shares outstanding as of December 31, 2019 and 37,850,544 shares issued and 34,222,476 shares outstanding as of December 31, 2018	39	38
Additional paid-in capital	391,240	364,179
Retained earnings	551,903	484,244
Accumulated other comprehensive loss	(84,892)	(83,467)
Total including shares held in treasury	858,290	764,994
Less: 4,295,413 shares as of December 31, 2019 and 3,628,068 shares as of December 31, 2018, held in treasury, at cost	(188,289)	(146,925)
Stockholders' equity	670,001	618,069
Non-controlling interest	—	250
Total equity	670,001	618,319
Total liabilities and stockholders' equity	\$ 1,183,088	\$ 1,061,936

See accompanying notes to consolidated financial statements.

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

	Year ended December 31,		
	2019	2018	2017
Revenues, net	\$ 991,346	\$ 883,112	\$ 762,310
Cost of revenues ⁽¹⁾	655,490	584,855	495,142
Gross profit ⁽¹⁾	335,856	298,257	267,168
Operating expenses:			
General and administrative expenses	126,909	116,202	102,515
Selling and marketing expenses	71,842	63,612	53,379
Depreciation and amortization expense	51,981	48,566	38,549
Impairment and restructuring charges	8,671	20,056	—
Total operating expenses	259,403	248,436	194,443
Income from operations	76,453	49,821	72,725
Foreign exchange gain, net	3,752	4,787	2,839
Interest expense	(13,612)	(7,227)	(1,889)
Other income, net	16,507	12,989	11,359
Income before income tax expense and earnings from equity affiliates	83,100	60,370	85,034
Income tax expense	15,172	3,397	36,146
Income before earnings from equity affiliates	67,928	56,973	48,888
Loss from equity-method investment	269	247	—
Net income attributable to ExlService Holdings, Inc. stockholders	\$ 67,659	\$ 56,726	\$ 48,888
Earnings per share attributable to ExlService Holdings, Inc. stockholders:			
Basic	\$ 1.97	\$ 1.65	\$ 1.44
Diluted	\$ 1.95	\$ 1.62	\$ 1.39
Weighted-average number of shares used in computing earnings per share attributable to ExlService Holdings Inc. stockholders:			
Basic	34,350,150	34,451,008	33,897,916
Diluted	34,732,683	35,030,984	35,110,210

(1) Exclusive of depreciation and amortization expense.

See accompanying notes to consolidated financial statements.

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

	Year ended December 31,		
	2019	2018	2017
Net income	\$ 67,659	\$ 56,726	\$ 48,888
Other comprehensive income/(loss):			
Unrealized gain/(loss) on cash flow hedges	8,773	(13,919)	19,802
Foreign currency translation (loss)/gain	(3,486)	(25,700)	18,894
Retirement benefits	(2,539)	382	1,273
Reclassification adjustments			
Gain on cash flow hedges ⁽¹⁾	(3,951)	(3,149)	(6,899)
Retirement benefits ⁽²⁾	(159)	(153)	256
Income tax (expense)/benefit relating to above ⁽³⁾	(63)	4,782	(3,979)
Total other comprehensive (loss)/income	\$ (1,425)	\$ (37,757)	\$ 29,347
Total comprehensive income	\$ 66,234	\$ 18,969	\$ 78,235

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

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

(3) These are income tax (expense)/benefit recognized on cash flow hedges and retirement benefits. Refer to Note 22 to the consolidated financial statements.

See accompanying notes to consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	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 on adoption of ASU No. 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 against stock-based compensation plans	1,090,932	1	8,560	—	—	—	—	—	8,561
Stock-based compensation	—	—	23,041	—	—	—	—	—	23,041
Acquisition of treasury stock	—	—	—	—	—	(830,308)	(43,454)	—	(43,454)
Non-controlling interest	—	—	—	—	—	—	—	31	31
Other comprehensive income	—	—	—	—	29,347	—	—	—	29,347
Net income	—	—	—	48,888	—	—	—	—	48,888
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 against stock-based compensation plans	990,334	1	1,397	—	—	—	—	—	1,398
Stock issued, business acquisition	69,459	—	4,080	—	—	—	—	—	4,080
Stock-based compensation	—	—	23,901	—	—	—	—	—	23,901
Acquisition of treasury stock	—	—	—	—	—	(726,050)	(43,109)	—	(43,109)
Allocation of equity component related to the convertible senior notes, net of tax and issuance costs	—	—	12,555	—	—	—	—	—	12,555
Non-controlling interest	—	—	—	—	—	—	—	26	26
Other comprehensive loss	—	—	—	—	(37,757)	—	—	—	(37,757)
Net income	—	—	—	56,726	—	—	—	—	56,726
Balance as of December 31, 2018	37,850,544	\$ 38	\$ 364,179	\$ 484,244	\$ (83,467)	(3,628,068)	\$ (146,925)	\$ 250	\$ 618,319
Stock issued against stock-based compensation plans	630,110	1	986	—	—	—	—	—	987
Stock-based compensation	—	—	26,070	—	—	—	—	—	26,070
Acquisition of treasury stock	—	—	—	—	—	(667,345)	(41,364)	—	(41,364)
Allocation of equity component related to issuance costs on convertible notes	—	—	(13)	—	—	—	—	—	(13)
Purchase of non-controlling interest	—	—	18	—	—	—	—	(250)	(232)
Other comprehensive loss	—	—	—	—	(1,425)	—	—	—	(1,425)
Net income	—	—	—	67,659	—	—	—	—	67,659
Balance as of December 31, 2019	38,480,654	\$ 39	\$ 391,240	\$ 551,903	\$ (84,892)	(4,295,413)	\$ (188,289)	\$ —	\$ 670,001

See accompanying notes to consolidated financial statements.

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

	Year ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 67,659	\$ 56,726	\$ 48,888
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	52,193	48,719	38,984
Stock-based compensation expense	26,070	23,901	23,041
Amortization of operating lease right-of-use assets	27,335	—	—
Unrealized gain on short term investments	(10,116)	(7,696)	—
Unrealized foreign exchange (gain)/loss, net	(321)	(8,620)	1,523
Deferred income tax (benefit)/expense	(12,345)	(625)	731
Allowance for doubtful accounts receivable	614	(573)	2,816
Loss from equity-method investment	269	247	—
Amortization of non-cash interest expense related to convertible senior notes	2,472	—	—
Impairment charges	3,627	20,056	—
Others, net	(1,205)	903	252
Change in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(7,093)	(10,046)	(20,482)
Prepaid expenses and other current assets	1,215	(4,509)	218
Advance income tax, net	7,194	(14,147)	11,037
Other assets	(2,204)	(6,800)	(2,224)
Accounts payable	134	(360)	1,706
Deferred revenue	6,679	(4,929)	(6,625)
Accrued employee costs	16,915	1,272	6,391
Accrued expenses and other liabilities	14,141	(1,084)	6,903
Operating lease liabilities	(24,813)	—	—
Net cash provided by operating activities	168,420	92,435	113,159
Cash flows from investing activities:			
Purchases of property and equipment	(40,138)	(40,437)	(35,154)
Investment in equity affiliate	—	—	(3,000)
Purchase of non-controlling interest	(241)	—	—
Business acquisition (net of cash acquired)	—	(231,829)	(23,300)
Purchase of investments	(187,974)	(133,434)	(402,721)
Proceeds from redemption of investments	176,968	128,208	241,439
Net cash used for investing activities	(51,385)	(277,492)	(222,736)
Cash flows from financing activities:			
Principal payments of finance lease liabilities	(336)	(152)	(174)
Proceeds from borrowings	46,000	246,614	60,574
Repayments of borrowings	(98,247)	(155,209)	(45,192)
Proceeds from convertible notes	—	149,000	—
Payment of debt issuance costs	(117)	(762)	(790)
Acquisition of treasury stock	(41,364)	(43,109)	(43,454)
Proceeds from exercise of stock options	987	1,397	8,561
Net cash (used for)/provided by financing activities	(93,077)	197,779	(20,475)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1,045)	(2,868)	3,935
Net increase/(decrease) in cash, cash equivalents and restricted cash	22,913	9,854	(126,117)
Cash, cash equivalents and restricted cash at the beginning of the period	104,131	94,277	220,394
Cash, cash equivalents and restricted cash at the end of the period	\$ 127,044	\$ 104,131	\$ 94,277
Supplemental disclosure of cash flow information:			
Restricted common stock issued for business acquisition	\$ —	\$ 4,080	\$ —
Cash paid for interest	\$ 10,649	\$ 4,725	\$ 1,122
Cash paid for taxes, net of refund	\$ 19,087	\$ 18,508	\$ 19,128
Assets acquired under finance lease	\$ 506	\$ 277	\$ 301

See accompanying notes to consolidated financial statements.

EXLSERVICE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019
(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 helps its clients build and grow sustainable businesses. By orchestrating its domain expertise, data, analytics and digital technology, the company looks deeper to design and manage agile, customer-centric operating models to improve global operations, drive profitability, enhance customer satisfaction, increase data-driven insights, 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 consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles (“U.S. GAAP”). The accompanying financial statements have been prepared on a consolidated basis and reflect the financial statements of ExlService Holdings and all of its subsidiaries and includes the Company’s share in the results of its associates.

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.

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 U.S. 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 consolidated statements of income.

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. 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 consolidated financial statements and the 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 consolidated financial statements include, but are not limited to, allowance for doubtful receivables, expected recoverability from customers with contingent fee arrangements, recoverability of dues from statutory authorities, 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, assumptions used to determine the incremental borrowing rate to calculate lease liabilities and right-of-use (“ROU”) assets, lease term to calculate lease cost, depreciation and amortization periods, purchase price allocation, recoverability of long-lived assets including goodwill and intangibles, and estimated costs to complete fixed price contracts.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

(c) Foreign Currency Translation

The functional currency of each entity in the Company is its respective local country currency which is also the currency of the primary economic environment in which it operates except for the entities in Mauritius which use the U.S. dollar as its functional currency. Transactions in foreign currencies are initially recorded into functional currency at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are remeasured into functional currency at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are remeasured to the functional currency of the subsidiary at exchange rates that prevailed on the date of inception of the transaction. All foreign exchange gains and losses arising on re-measurement are recorded in the accompanying consolidated statements of income.

The assets and liabilities of the subsidiaries for which the functional currency is other than the U.S. dollar are translated into U.S. dollars, the reporting currency, at the rate of exchange prevailing on the balance sheet date. Revenues and expenses are translated into U.S. dollars at the exchange rates prevailing on the last business day of each month, which approximates the average monthly exchange rate. Resulting translation adjustments are included in accumulated other comprehensive loss in the consolidated balance sheets.

(d) Revenue Recognition

Revenue is recognized when services are provided to the Company's customers, in an amount that reflects the consideration which the Company expect to be entitled to in exchange for the services provided.

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 Financial Accounting Standards Board Accounting Standards Update ("ASU") No. 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 retained earnings, 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. The prior period consolidated financial statements have not been retrospectively adjusted and continue to be reported under the accounting standards in effect for those periods. 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 commission costs have been recorded as an asset and recognized as an operating expense on a straight-line basis over the expected period of benefit. 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. The Company also provides care optimization and reimbursement optimization services, for its clients through its healthcare analytics solutions and services. The Company offers integrated solutions to help its clients with cost containment by leveraging technology platforms, customizable and configurable analytics and expertise in healthcare reimbursements to help clients enhance their claims payment accuracy.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

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) Revenues from arrangements involving subcontracting, either in part or whole of the assigned work, are recognized after Company's assessment of "Principal versus agent considerations". The Company evaluates whether it is in control of the services before the same are transferred to the customer to assess whether it is principal or agent in the arrangement. Revenues are recognized on a gross basis if the Company is in the capacity of principal and on a net basis if it falls in the capacity of an agent.
- ii. Revenues for the Company's fixed-price contracts are recognized using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the client. The use of this method requires significant judgment to estimate the cost required to complete the contracted scope of work, including assumptions and estimates relative to the length of time to complete the project and the nature and complexity of the work to be performed and resources engaged. The Company regularly monitors these estimates throughout the execution of the 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. Revenue from the Company's software and related services contracts, which are not significant, are primarily related to annual 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 without any associated services are recognized upon delivery of the related incremental license.

To a lesser extent, certain contracts may include offerings such as sale of licenses, which may be perpetual or subscription-based. The Company recognizes revenue from distinct perpetual licenses upfront at a point in time when the software is made available to the client, whereas for a combined software license and services performance obligation, revenue is recognized over the period that the services are performed.

Revenue from distinct subscription based licenses is recognized over the period of service performed. Revenue from any associated maintenance or ongoing support services is recognized over the term of the contract.
- iv. Revenues from reimbursement optimization services having contingent fee arrangements are recognized by the Company at the point in time when a performance obligation is satisfied, which is when it identifies an overpayment claim. In such contracts, the Company's consideration is contingent upon the actual collections made by its customers and net of any subsequent retraction claims. Based on guidance on "variable consideration" in Topic 606, the Company uses its historical experience and projections to determine the expected recoveries from its customers and recognizes revenue based upon such expected recoveries. Any adjustment required due to change in estimates are recorded in the period in which such change is identified.

Modification to Contracts

The Company's contracts may be modified to add, remove or change existing performance obligations. The accounting for modifications to contracts involves assessing whether the services added to an existing contract are distinct and whether the pricing is at a standalone selling price. Services added that are distinct and at standalone selling price are accounted on a prospective basis either as a separate contract, or as a termination of existing contract and creation of a new contract.

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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.

Variable Consideration

Variability in the transaction price arises primarily due to service level agreements, 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.

Unbilled Receivables

Unbilled receivables represents revenues recognized for services rendered between the last billing date and the balance sheet date. Unbilled receivables also include revenues recognized from reimbursement optimization services where the Company identify an overpayment claim. In such contracts, Company's consideration is contingent upon and collectable only when the actual collections are made by its customers. Based on guidance on "variable consideration" in Topic 606, Company use its historical experience and projections to determine the expected recoveries from its customers and recognize revenue and receivables based upon such expected recoveries. Accordingly, the amounts for which services have been performed and for which invoices have not been issued to customers on the balance sheet date, (i.e. unbilled receivables) are presented under accounts receivable.

Deferred Revenue and Contract Fulfillment Costs

The Company has contract liabilities (deferred revenue) consisting of advance billings and billing in excess of revenues recognized. Deferred revenue also includes the amount for which services have been rendered but other conditions of revenue recognition are not met, for example where the Company does not have an enforceable contract.

Further, the Company also defer revenues attributable to certain process transition activities, with respect to its customers where such activities do not represent separate performance obligations. Revenues related to such transition activities are classified under "Deferred Revenue" and "other non-current liabilities" in the Company's consolidated balance sheets and are recognized ratably over the period during which the related services are performed.

Costs related to such transition activities are contract fulfillment costs, and thereby classified under "Other Current Assets" and "Other Assets" in the consolidated balance sheets, and are recognized over the estimated expected period of benefit, under Cost of Revenues in the consolidated statements of income.

Contract Acquisition Costs

Direct and incremental costs incurred for acquiring contracts, such as sales commissions are contract acquisition costs and thereby classified under "Other Current Assets" and "Other Assets" in the consolidated balance sheets. Such costs are amortized over the expected period of benefit and recorded under Selling and marketing expenses in the consolidated statements of income.

EXLSERVICE HOLDINGS, INC.

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Upfront Payment Made to Customer

Upfront payments, in nature of deal signing discount or deal signing bonuses made to customers are contract assets and classified under “Other Current Assets and Other Assets” in the consolidated balance sheets. Such costs are amortized over the expected period of benefit and are recorded as an adjustment to transaction price and reduced from revenues.

Out of Pocket Expenses

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 and are defined for each contract separately. Usual payment terms range between 30-60 days. The Company does not have any extended payment terms clauses in existing contracts.

Remaining Performance Obligations

The Company does not disclose the value of remaining performance obligations by applying the practical expedient provided in Topic 606, for contracts that meet any of the following criteria:

- i. Contracts with an original expected length of one year or less as determined under ASC 606,
- ii. Contracts for which Company recognize revenue based on the right to invoice for service performed.

(e) 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 8 to the consolidated financial statements for details). These deposits with banks have maturity dates after December 31, 2019. Restricted cash presented under current assets represents funds held on behalf of clients in dedicated bank accounts.

For purposes of the 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.

(f) Investments

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

The Company’s mutual fund investments are in debt and money market funds which invest in instruments of various maturities in India. These investments are accounted for in accordance with the fair value option under Financial Accounting Standard Board Accounting Standards Codification (“ASC”) Topic 825, *Financial Instruments*, (“Topic 825”) and any changes in fair value are included in interest and other income. The fair value is represented by original cost on the acquisition date and the net asset value (“NAV”) as quoted, at each reporting period. Gain or loss on the disposal of these investments is calculated using the weighted average cost of the investments sold or disposed and is included in interest and other income.

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(g) Accounts Receivable and Allowance for Doubtful Receivable

Accounts receivable are recorded net of allowances for doubtful accounts. Allowances for doubtful accounts are established through the evaluation of the accounts receivable aging and prior collection experience, current market conditions, client's financial condition and the amounts of receivables in dispute to ascertain the ultimate collectability of these receivables. As of December 31, 2019 and 2018, the Company had \$1,163 and \$956, respectively, of allowance for doubtful accounts.

Accounts receivable include unbilled accounts receivable which represent revenues on contracts to be billed, in subsequent periods, as per the terms of the related contracts. As of December 31, 2019 and 2018, the Company had \$73,920 and \$63,952, respectively, of unbilled accounts receivable.

(h) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment. Equipment held under finance leases are capitalized at the commencement of the lease at the lower of present value of minimum lease payments at the inception of the leases or its fair value. Advances paid towards acquisition of property and equipment and the cost of property and equipment not yet placed in service before the end of the reporting period are classified as capital work in progress.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Depreciation on equipment held under finance leases and leasehold improvements are computed using the straight-line method over the shorter of the asset's estimated useful lives or the lease term.

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable.

	Useful Lives (in years)
Assets:	
Network equipment and computers	3-5
Software	3-5
Leasehold improvements	3-8
Office furniture and equipment	3-8
Motor vehicles	2-5
Buildings	30

(i) Software Development Costs

The Company capitalizes certain costs related to the development or enhancements to existing software products to be sold, leased or otherwise marketed and / or used for internal use. The Company begins to capitalize costs to develop or enhance software when planning stage efforts are successfully completed, management has authorized and committed project funding, and it is probable that the project will be completed and the software will be used as intended. Costs incurred prior to meeting these criteria, together with costs incurred for training and maintenance, are expensed as incurred and recorded within "general and administrative expenses" in the Company's consolidated statements of income. The Company exercises judgment in determining the point at which various projects may be capitalized, in assessing the ongoing value of the capitalized costs, and in determining the estimated useful lives over which the costs are amortized.

Annual amortization of internally developed software products meant for sale, lease or otherwise marketing is the greater of the amount computed using the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or the straight-line method over the remaining estimated economic life of the software product, generally estimated to be up to 5 years from the date the product became available for use. Annual amortization of internally developed software products meant for internal use is based on the straight-line method over the estimated useful lives of the internally developed software products.

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(j) Business Combinations, Goodwill and Other Intangible Assets

ASC Topic 805, Business Combinations, requires that the acquisition method of accounting be used for all business combinations. The guidance specifies criteria as to intangible assets acquired in a business combination that must be recognized and reported separately from goodwill. Contingent consideration is recognized at its fair value on the acquisition date. A liability resulting from contingent consideration is re-measured to fair value as of each reporting date until the contingency is resolved. Changes in fair value are recognized in earnings. These fair value measurements represent Level 3 measurements as they are based on significant inputs not observable in the market. Under ASC 350, *Intangibles - Goodwill and Other*, all assets and liabilities of the acquired businesses, including goodwill, are assigned to reporting units. Acquisition related costs are expensed as incurred under general and administrative expenses.

Goodwill represents the cost of the acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased in a business combination. Goodwill is not amortized but is tested for impairment at least on an annual basis, relying on a number of factors including operating results, business plans and estimated future cash flows of the reporting units to which it is assigned. The Company undertakes studies to determine the fair values of assets and liabilities acquired and allocate purchase consideration to assets and liabilities, including property and equipment, goodwill and other identifiable intangibles. The Company examines the carrying value of the goodwill annually in the fourth quarter, or more frequently, as circumstances warrant, to determine whether there are any impairment losses. The Company tests for goodwill impairment at the reporting unit level, as that term is defined in U.S. GAAP. Refer to Note 10 for discussion of the Company's goodwill impairment testing. The Company adopted ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, effective January 1, 2018 in conjunction with our goodwill impairment assessment.

The quantitative goodwill impairment test involves a comparison of the fair value of a reporting unit with its carrying amount. The Company estimates the fair value of reporting unit using a combination of the income approach, using discounted cash flow analysis ("DCF model"), and also the market approach, using market multiples for reporting units whereby the fair value is not substantially in excess of carrying value. Under the income approach, fair value is determined based on the present value of estimated future cash flows, discounted at an appropriate risk-adjusted rate. The Company uses its internal forecasts to estimate future cash flows and include an estimate of long-term future growth rates based on its most recent views of the long-term outlook for each business. Actual results may differ from those assumed in our forecasts. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective reporting units. The discount rate is mainly based on judgment of the specific risk inherent within each reporting unit. The variables within the discount rate, many of which are outside of the Company's control, provide the Company's best estimate of all assumptions applied within the DCF model. The Company uses the "Market approach" to corroborate the results of the income approach. Under the market approach, the Company estimates fair value based on market multiples of revenues and earnings derived from comparable publicly-traded companies with characteristics similar to the reporting unit and comparable market transactions. The estimates used to calculate the fair value of a reporting unit change from year to year based on operating results, market conditions and other factors. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

Determining fair value requires the use of estimates and exercise of significant judgment, including assumptions about appropriate discount rates, perpetual growth rates, amount and timing of expected future cash flows, market multiples of revenues and earnings and comparable market transactions. These estimates and judgements may not be within the control of the Company and accordingly it is reasonably possible that the estimates and judgments described above could change in future periods. There can be no assurance that operations will achieve the future cash flows reflected in the projections. If the carrying amount of the reporting unit exceeds its fair value, an impairment loss shall be recognized, in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

Intangible assets acquired in a business combination are initially valued and recognized at fair market value using generally accepted valuation methods appropriate for the type of intangible asset. Intangible assets with definite lives are amortized over the estimated useful lives and are reviewed for impairment, if indicators of impairment arise. The evaluation of impairment is based upon a comparison of the carrying amount of the intangible asset to its fair value, which is calculated using the estimated future undiscounted net cash flows expected to be generated by the asset. If the fair value of the intangible assets is less than the carrying amount of the asset, the asset is considered impaired and an impairment expense is recognized equal to any shortfall in the current period.

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The Company's definite lived intangible assets are amortized over their estimated useful lives as listed below using a straight-line method:

Customer relationships	3-15 years
Leasehold benefits	3-8 years
Developed technology	5-10 years
Non-compete agreements	1-5 years
Trade names and trademarks	3-10 years

(k) Investment in Equity Affiliate

Investments in equity affiliate 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 consolidated statements of income. The Company periodically reviews the carrying value of its investment to determine if there has been any other than temporary decline in carrying value. The investment balance for an investee is increased or decreased for cash contribution and distributions to or from, respectively.

(l) Impairment of Long-lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Such assets are required to be tested for impairment if the carrying amount of the assets is higher than the future undiscounted net cash flows expected to be generated from the assets. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which undiscounted cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. The Company derives the required undiscounted cash flow estimates from its historical experience and its internal business plans. To determine fair value, the Company follows the discounted cash flow approach and uses its internal cash flow estimates discounted at an appropriate discount rate and independent appraisals, as appropriate. The impairment amount to be recognized is measured as the amount by which the carrying value of the assets exceeds their fair value.

(m) Derivative Financial Instruments

In the normal course of business, the Company uses derivative instruments for the purpose of mitigating the exposure from risk of foreign currency fluctuation associated with forecasted transactions denominated in certain foreign currencies and to minimize earnings and cash flow volatility associated with changes in foreign currency exchange rates, and not for speculative trading purposes. These derivative contracts are purchased adhering to the Company's policy and are with counterparties that are highly rated financial institutions.

The Company hedges forecasted transactions that are subject to foreign exchange exposure with foreign currency exchange contracts that qualify as cash flow hedges. Changes in the fair value of these cash flow hedges are recorded as a component of accumulated other comprehensive income/(loss) ("AOCI"), net of tax, until the hedged transactions occurs. The resultant foreign exchange gain/(loss) upon settlement of cash flow hedges are recorded in the consolidated statements of income along with the underlying hedged item in the same line as either part of "Cost of revenues", "General and administrative expenses", "Selling and marketing expenses", "Depreciation and amortization expense", as applicable.

The Company evaluates hedge effectiveness of cash flow hedges at the time a contract is entered into as well as on an ongoing basis. For hedge relationships that are discontinued because the forecasted transaction is not expected to occur by the end of the originally specified period, any related derivative amounts recorded in equity are reclassified to earnings.

The Company uses derivatives instruments consisting of foreign currency exchange contracts to economically hedge intercompany balances and other monetary assets or liabilities denominated in currencies other than the functional currency, against the risk of foreign currency fluctuations associated with remeasurement of such assets and liabilities to functional currency. Changes

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in the fair value of these derivatives are recognized in the consolidated statements of income and are included in foreign exchange gain/(loss).

The Company also uses forward contracts designated as net investment hedges to hedge the foreign currency risks related to the Company's investment in foreign subsidiaries. Gains and losses on these forward contracts are recognized in AOCI as part of the foreign currency translation adjustment.

(n) Borrowings

The Company accounts for convertible notes in accordance with the guidelines established by the ASC 470-20, *Debt with Conversion and Other Options*. The Company separates the convertible notes into liability and equity components. The Beneficial Conversion Feature ("BCF") of a convertible note, which is the equity component and recorded as additional paid-in capital, is normally characterized as the convertible portion or feature of certain notes payable that provide a rate of conversion that is below market value or in-the-money when issued. The Company records a BCF related to the issuance of a convertible note when issued.

If a convertible note is within the scope of the Cash Conversion Subsections and contains embedded features other than the embedded conversion option, the guidance in ASC 815-15, *Derivatives and Hedging - Embedded Derivatives* (ASC 815-15), is applied to determine if any of those features must be separately accounted for as a derivative instrument.

The estimated fair value of the liability component at issuance is determined using a discounted cash flow technique, which considers debt issuances with similar features of the Company's convertible notes, excluding the conversion feature. The excess of the gross proceeds received over the estimated fair value of the liability component is allocated to the BCF, which is credited to additional paid-in-capital, with a corresponding offset recognized as a discount to reduce the net carrying value of the convertible notes. The discount is amortized to interest expense over the expected term of the convertible notes using the effective interest method.

(o) 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 includes the service cost component of the net periodic benefit cost in the same line item or items as other compensation costs arising from services rendered by the respective employees during the period. The interest cost, expected return on plan assets and amortization of actuarial gains/loss, are classified in - "Other income, net". Refer to Note 20 and Note 27 to the consolidated financial statements for details.

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

(p) Stock-Based Compensation

The Company recognizes stock-based compensation expense in the consolidated financial statements for awards of equity instruments to employees and non-employee directors based on the grant-date fair value of those awards. The Company recognizes these compensation costs over the requisite service period of the award. Forfeitures are accounted when the actual forfeitures occur.

Under the Company's 2018 Omnibus Incentive Plan (the "2018 Plan"), which was adopted by the Company's stockholders on June 15, 2018, which replaces and supersedes the 2015 Amendment and Restatement of the Company's 2006 Omnibus Award Plan (the "Prior Plan") and is effective upon the date approved by the Company's stockholders, the Company grants performance-based restricted stock units ("PRsUs") to executive officers and other specified employees. 50% of the PRsUs cliff vest based on an aggregated revenue target ("PU") for a three-year period. The remaining 50% vest based on a market condition ("MUs") that is contingent on meeting or exceeding the Company's total shareholder return relative to a group of peer companies specified under the program, measured over a three-year performance period. The award recipient may earn up to two hundred percent (200%) of the PRsUs granted based on the actual achievement of both targets.

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The fair value of each PU is determined based on the market price of one common share of the Company on the day prior to the date of grant, and the associated compensation expense is calculated on the basis that performance targets to receive 100% of the PUs are probable of being achieved. The compensation expense for the PUs is recognized on a straight-line basis over the service period, which is through the end of the third year. Over this period, the number of shares that will be issued will be adjusted upward or downward based upon the probability of achievement of the performance targets. The final number of shares issued and the related compensation cost recognized as an expense will be based on a comparison of the final performance metrics to the specified targets. The expense related to the unvested PUs as of December 31, 2019 was based on the Company's assessment of performance criteria for these grants that would most likely be met during the respective years of vesting against the targeted performance level.

The grant date fair value for the MUs is determined using a Monte Carlo simulation model and the related compensation expense is expensed on a straight-line basis over the vesting period. All compensation expense related to the MUs will be recognized if the requisite performance period is fulfilled, regardless of the extent of the market condition achieved.

(q) Income Taxes

The Company accounts for income taxes using the asset and liability method of accounting for income taxes. The Company calculates and provides for income taxes in each of the tax jurisdictions in which it operates. The deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the financial statement carrying values of existing assets and liabilities and their respective tax bases and all operating losses carried forward, if any. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which the applicable temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates or tax status is recognized in the statements of income in the period in which the change is identified. Deferred tax assets are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company establishes provisions for uncertain tax provisions and related interest and penalties when the Company believes those tax positions are not more likely than not of being sustained, if challenged.

(r) Financial Instruments and Concentration of Credit Risk

Financial Instruments. For certain financial instruments, including cash and cash equivalents, short-term investments (except investment in mutual funds, as disclosed in Note 16), restricted cash, accounts receivable, accounts payable, accrued expenses, other current liabilities and outstanding revolver credit, recorded amounts approximate fair value due to the relatively short maturity periods and/or timing of repayments of such instruments.

Concentration of Credit Risk. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, time deposits, mutual fund investments, accounts receivable and derivative financial instruments. By their nature, all such financial instruments involve risks including the credit risks of non-performance by counterparties. Pursuant to the Company's investment policy, surplus funds are maintained as cash equivalents and are invested in highly-rated mutual funds, money market accounts and time deposits, placed with highly rated financial institutions to reduce its exposure to market risk with regard to these funds. The Company's exposure to credit risk on account receivable is influenced mainly by the individual characteristic of each customer and the concentration of risk from the top few customers. To mitigate this risk the Company evaluates the creditworthiness of its clients in conjunction with its revenue recognition processes as well as through its ongoing collectability assessment processes for accounts receivable. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(s) Leases

The Company determines if an arrangement is a lease at inception of the contract. Operating leases are recorded in "operating lease right-of-use ("ROU") assets", "current portion of operating lease liabilities" and "operating lease liabilities, less current portion" in the Company's consolidated balance sheets. Finance leases are recorded in "property and equipment", "current portion of finance lease liabilities" and "finance lease liabilities, less current portion" in the Company's consolidated balance sheets.

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ROU assets represent the Company's right to use an underlying asset during the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. For leases in which the rate implicit in the lease is not readily determinable, the Company uses its incremental borrowing rate based on the information available at commencement date for determining the present value of lease payments. Lease term includes the effects of options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for operating lease arrangements is recognized on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components, which are accounted for separately.

The Company accounts for modification as a separate contract when it grants an additional right of use not included in the original lease and the increase is commensurate with the standalone price for the additional right of use, adjusted for the circumstances of the particular contract. Modifications which are not accounted for as a separate contract are reassessed as of the effective date of the modification based on its modified terms and conditions and the facts and circumstances as of that date.

On January 1, 2019, the date of initial application, the Company adopted, Leases (Topic 842), using the modified retrospective method. The modified retrospective method provides a method of recognizing those leases which had not expired as of the date of adoption of January 1, 2019. The prior period consolidated financial statements have not been retrospectively adjusted and continues to be reported under Topic 840.

The Company elected the practical expedient permitted under the transition guidance under Topic 842, which amongst other matters, allowed the Company (i) not to apply the recognition requirements to short-term leases (leases with a lease term of 12 months or less), (ii) not to reassess whether any expired or existing contracts are or contain leases, (iii) not to reassess the lease classification for any expired or existing leases, and (iv) not to reassess initial direct costs for any existing leases.

The adoption resulted in the recognition of ROU assets of \$80,328 (net of deferred rent of \$8,626) and lease liabilities of \$88,954 for operating leases as of January 1, 2019. The Company's accounting for finance leases remained substantially unchanged. The adoption had no impact on opening balance of retained earnings. Refer to Note 21 to the consolidated financial statements for details.

The Company reviews ROU assets for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable.

(t) Government Grants

Government grants related to income are recognized as a reduction of expenses in the consolidated statements of income when there is a reasonable assurance that the entity will comply with the conditions attached to the grant and that the grants will be received.

(u) Earnings per share

Basic earnings per share is computed using the weighted average number of common shares outstanding, adjusted for outstanding shares that are subject to repurchase during the period. Diluted earnings per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. For the purposes of calculating diluted earnings per share, the treasury stock method is used for stock-based awards except where the results would be anti-dilutive. The Company includes performance stock unit awards in dilutive potential common shares when they become contingently issuable and have a dilutive impact per authoritative guidance and excludes such awards when they are not contingently issuable.

(v) Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with such liabilities are expensed as incurred.

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(w) Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("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 based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The new guidance replaces the existing incurred loss impairment model with an expected loss model which requires the use of forward-looking information to calculate credit loss estimates. These changes will result in earlier recognition of credit losses. 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. Early adoption as of the fiscal years beginning after December 15, 2018 was permitted. The amendment should be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date to align credit loss methodology with the new standard. Adoption of the ASU will result in immaterial impact to equity as of January 1, 2020 with a corresponding offset to accounts receivable. The impact of adoption of this guidance did not have a material effect on the Company's accounting policies, processes, and systems.

In August 2018, FASB issued ASU No. 2018-13, *Fair Value Measurement* ("Topic 820"): Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this ASU changes the disclosure requirements on fair value measurements in Topic 820 by prescribing new, elimination and modification of disclosure requirements, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. An entity was permitted to early adopt either the entire standard or only the provisions that eliminate or modify requirements. The adoption of this ASU effective January 1, 2020 is not expected to have any material effect on the Company's consolidated financial statements.

In August 2018, FASB issued ASU No. 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General* ("Subtopic 715-20"): Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in this ASU remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. The adoption of this ASU is not expected to have any material effect on the Company's consolidated financial statements.

In August 2018, FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software* (Subtopic 350-40"): This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, the ASU requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in FASB Accounting Standard Codification Subtopic 350-40 on internal-use software to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The ASU 2018-15 also provides guidance on amortization and impairment of any costs capitalized, along with new presentation and disclosure requirements. The new guidance is effective for fiscal years beginning after December 15, 2019. Early adoption was permitted and both prospective and retrospective transition methods are allowed. The adoption of this ASU did not have any material effect on the Company's consolidated financial statements.

In April 2019, FASB issued ASU No. 2019-04, *Codification Improvements to Financial Instruments-Credit Losses* (Topic 326), *Derivatives and Hedging* (Topic 815), and *Financial Instruments: Targeted Transition Relief* (Topic 825). The amendments clarify the scope of the credit losses standard and address issues related to accrued interest receivable balances, recoveries, variable interest rates and prepayments, among other things. With respect to hedge accounting, the amendments address partial-term fair value hedges, fair value hedge basis adjustments, and certain transition requirements, among other things. With respect to recognizing and measuring financial instruments, the amendment in ASU address the scope of the guidance, the requirement for remeasurement under ASC 820 when using the measurement alternative, certain disclosure requirements and which equity securities have to be remeasured at historical exchange rates. This ASU is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. Early adoption is permitted. The adoption of this ASU is not expected to have any material effect on the Company's consolidated financial statements.

In May 2019, FASB issued ASU No. 2019-05, *Financial Instruments-Credit Losses* (Topic 326): Targeted Transition Relief. This ASU provide entities with the option to irrevocably elect the fair value option, on an instrument-by-instrument basis in

EXLSERVICE HOLDINGS, INC.

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accordance with Subtopic 825-10, for certain financial instruments that are within the scope of Subtopic 326-20, upon adopting Topic 326. The fair value option election does not apply to held-to-maturity debt securities. The amendments in this Update provide entities with targeted transition relief that is intended to increase comparability of financial statement information for some entities that otherwise would have measured similar financial instruments using different measurement methodologies. This ASU is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. Early adoption is permitted. The adoption of this ASU is not expected to have any material effect on the Company's consolidated financial statements.

(x) Recently Adopted Accounting Pronouncements

In February 2016, FASB issued ASU No. 2016-02, *Leases* (Topic 842), which requires the identification of arrangements that should be accounted for as leases. 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 recognition of an ROU asset and lease obligation for those leases classified as operating leases under Topic 840, while the income statement will reflect lease expense for operating leases. The balance sheet amounts recorded for existing operating leases at the date of adoption of this ASU must be calculated using the applicable incremental borrowing rate. The Company adopted Topic 842 as of January 1, 2019 using the modified retrospective method provided by ASU 2018-11. The adoption had a material impact on the Company's consolidated balance sheets, but did not have a material impact on the Company's consolidated income statements and consolidated statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, while the Company's accounting for finance leases remained substantially unchanged. Refer to Note 21 to the consolidated financial statements for details.

In July 2018, FASB issued ASU No. 2018-11, *Leases* (Topic 842), which provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP (Topic 840, *Leases*). The Company adopted Topic 842 as of January 1, 2019 using this ASU. Refer to Note 21 to the consolidated financial statements for details.

3. Segment and Geographical Information

The Company operates in the BPM industry and is a provider of operations management and analytics services. Effective January 1, 2020, the Company realigned its operating and reportable segments, but the presentation in this Annual Report, including the discussion in next paragraphs, refers to the structure in place prior to such realignment.

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. Five of those operating segments provide BPM or "operations management" services, which is organized into industry-focused operating segments (Insurance, Healthcare, Travel, Transportation and Logistics, Banking and Financial Services, and Utilities) and one of the operating segment is a "capability" segment (Finance and Accounting) that provides services to clients in the Company's 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

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(In thousands, except share and per share amounts)

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 each of the years ended December 31, 2019, 2018 and 2017, for each of the reportable segments, are as follows:

	Year ended December 31, 2019						
	Insurance	Healthcare	TT&L	F&A	All Other	Analytics	Total
Revenues, net	\$ 294,159	\$ 90,589	\$ 68,010	\$ 106,580	\$ 74,679	\$ 357,329	\$ 991,346
Cost of revenues ⁽¹⁾	199,678	73,650	38,736	63,317	48,864	231,245	655,490
Gross profit ⁽¹⁾	\$ 94,481	\$ 16,939	\$ 29,274	\$ 43,263	\$ 25,815	\$ 126,084	\$ 335,856
Operating expenses							259,403
Foreign exchange gain, interest expense and other income, net							6,647
Income tax expense							15,172
Loss from equity-method investment							269
Net income							\$ 67,659

	Year ended December 31, 2018						
	Insurance	Healthcare	TT&L	F&A	All Other	Analytics	Total
Revenues, net	\$ 258,144	\$ 84,391	\$ 70,237	\$ 97,941	\$ 87,109	\$ 285,290	\$ 883,112
Cost of revenues ⁽¹⁾	174,921	66,768	41,066	59,155	58,341	184,604	584,855
Gross profit ⁽¹⁾	\$ 83,223	\$ 17,623	\$ 29,171	\$ 38,786	\$ 28,768	\$ 100,686	\$ 298,257
Operating expenses							248,436
Foreign exchange gain, interest expense and other income, net							10,549
Income tax expense							3,397
Loss from equity-method investment							247
Net income							\$ 56,726

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December 31, 2019

(In thousands, except share and per share amounts)

	Year ended December 31, 2017						Total
	Insurance	Healthcare	TT&L	F&A	All Other	Analytics	
Revenues, net	\$ 234,794	\$ 77,013	\$ 70,951	\$ 86,527	\$ 83,082	\$ 209,943	\$ 762,310
Cost of revenues ⁽¹⁾	159,433	49,412	41,337	51,362	56,638	136,960	495,142
Gross profit ⁽¹⁾	\$ 75,361	\$ 27,601	\$ 29,614	\$ 35,165	\$ 26,444	\$ 72,983	\$ 267,168
Operating expenses							194,443
Foreign exchange gain, interest expense and other income, net							12,309
Income tax expense							36,146
Net income							\$ 48,888

⁽¹⁾ Exclusive of depreciation and amortization expense.

Revenues, net by service type, were as follows:

	Year ended December 31,		
	2019	2018	2017
BPM and related services ⁽¹⁾	\$ 634,017	\$ 597,822	\$ 552,367
Analytics services	357,329	285,290	209,943
Revenues, net	\$ 991,346	\$ 883,112	\$ 762,310

⁽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. Refer to reportable segment disclosure above.

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

	Year ended December 31,		
	2019	2018	2017
Revenues, net			
United States	\$ 817,878	\$ 732,589	\$ 626,336
Non-United States			
United Kingdom	113,036	114,515	108,640
Rest of World	60,432	36,008	27,334
Total Non-United States	173,468	150,523	135,974
Revenues, net	\$ 991,346	\$ 883,112	\$ 762,310

Long-lived assets by geographic area, which consist of property and equipment, net and operating lease right-of-use assets, net were as follows:

	As of	
	December 31, 2019	December 31, 2018
Long-lived assets		
India	\$ 78,244	\$ 36,152
United States	52,375	28,254
Philippines	26,006	5,985
Rest of World	8,913	3,119
Long-lived assets	\$ 165,538	\$ 73,510

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)
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(In thousands, except share and per share amounts)
4. Quarterly Financial Data

Summarized quarterly results for the years ended December 31, 2019 and 2018 are as follows:

	Three months ended 2019 (Unaudited)				Year ended (Audited)
	March 31	June 30	September 30	December 31	December 31, 2019
Revenues, net	\$ 239,573	\$ 243,509	\$ 251,392	\$ 256,872	\$ 991,346
Gross profit ⁽¹⁾	\$ 82,333	\$ 81,063	\$ 83,850	\$ 88,610	\$ 335,856
Net income	\$ 14,695	\$ 12,564	\$ 19,044	\$ 21,356	\$ 67,659
Earnings per share:					
Basic ⁽²⁾	\$ 0.43	\$ 0.36	\$ 0.55	\$ 0.62	\$ 1.97
Diluted ⁽²⁾	\$ 0.42	\$ 0.36	\$ 0.55	\$ 0.62	\$ 1.95
Weighted-average number of shares used in computing earnings per share:					
Basic ⁽²⁾	34,374,815	34,451,671	34,322,449	34,253,308	34,350,150
Diluted ⁽²⁾	34,833,435	34,702,547	34,699,497	34,696,896	34,732,683
Stock compensation expense	\$ 6,956	\$ 7,155	\$ 7,427	\$ 4,532	\$ 26,070
Amortization of intangibles	\$ 5,528	\$ 5,554	\$ 5,502	\$ 4,974	\$ 21,558
	Three months ended 2018 (Unaudited)				Year ended (Audited)
	March 31	June 30	September 30	December 31	December 31, 2018
Revenues, net	\$ 206,973	\$ 210,112	\$ 231,124	\$ 234,903	\$ 883,112
Gross profit ⁽¹⁾	\$ 68,872	\$ 70,463	\$ 78,967	\$ 79,955	\$ 298,257
Net income	\$ 23,158	\$ 14,462	\$ 15,249	\$ 3,857	\$ 56,726
Earnings per share:					
Basic ⁽²⁾	\$ 0.67	\$ 0.42	\$ 0.44	\$ 0.11	\$ 1.65
Diluted ⁽²⁾	\$ 0.66	\$ 0.41	\$ 0.43	\$ 0.11	\$ 1.62
Weighted-average number of shares used in computing earnings per share:					
Basic ⁽²⁾	34,446,265	34,511,777	34,458,520	34,388,025	34,451,008
Diluted ⁽²⁾	35,302,926	35,142,388	35,207,991	34,921,388	35,030,984
Stock compensation expense	\$ 5,074	\$ 6,893	\$ 5,344	\$ 6,590	\$ 23,901
Amortization of intangibles	\$ 3,947	\$ 3,761	\$ 6,718	\$ 5,951	\$ 20,377

⁽¹⁾ Exclusive of depreciation and amortization expense.

⁽²⁾ Total of quarterly basic and diluted earnings per share and weighted average number of shares used in computing earnings per share will not be equal to year end basic and diluted earnings per share and weighted average number of shares used in computing earnings per share, respectively.

5. Revenues, net

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

Contract balances

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

	As of	
	December 31, 2019	December 31, 2018
Accounts receivable, net	\$ 171,864	\$ 164,752
Contract assets	\$ 5,391	\$ 5,445
Contract liabilities:		
Deferred revenue (consideration received in advance)	\$ 11,259	\$ 6,345
Consideration received for process transition activities	\$ 3,036	\$ 1,669

Accounts receivable includes \$73,920 and \$63,952 as of December 31, 2019 and 2018, respectively, representing unbilled receivables. 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 assets represents upfront payments in nature of deal signing discount or deal signing bonuses made to customers. These costs are amortized over the expected period of benefit and are recorded as an adjustment to transaction price and reduced from revenues.

Contract liabilities represents that portion of deferred revenue for which payments have been received in advance from customers. This may also include revenues deferred for certain contracts where services have been rendered but other conditions for revenue recognition have not been met for e.g. legally enforceable contract is not executed. The Company also defers revenues attributable to certain process transition activities for which costs have been capitalized by the Company as contract fulfillment costs. The contract liabilities are included within “Deferred revenues” and “other non-current liabilities” in the consolidated balance sheets. The revenues are recognized as (or when) the performance obligation is fulfilled under the contract with customer.

Revenue recognized during the year ended December 31, 2019 that was included in the contract liabilities balance at the beginning of the period was \$6,077 and revenue recognized during the year ended December 31, 2018 that was included in the contract liabilities balance at the beginning of the period was \$9,147.

Contract acquisition and fulfillment costs

The following table provides details of the Company’s contract acquisition and fulfillment costs:

	2019		2018	
	Contract acquisition cost	Contract fulfillment cost	Contract acquisition cost	Contract fulfillment cost
Balance as of January 1	\$ 713	\$ 4,051	\$ 454	\$ 2,769
Addition	1,222	4,652	567	2,216
Amortization	(628)	(1,448)	(308)	(934)
Balance as of December 31	\$ 1,307	\$ 7,255	\$ 713	\$ 4,051

There was no impairment loss in relation to costs capitalized. The capitalized costs are amortized on a straight line basis over the life of the contract.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

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6. Other Income, net

Other income, net consists of the following:

	Year ended December 31,		
	2019	2018	2017
Gain on sale and mark-to-market of mutual funds	\$ 12,965	\$ 9,970	\$ 8,766
Interest and dividend income	2,399	1,873	1,625
Others, net	1,143	1,146	968
Other income, net	<u>\$ 16,507</u>	<u>\$ 12,989</u>	<u>\$ 11,359</u>

7. Earnings Per Share

Basic earnings per share is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding, adjusted for outstanding shares that are subject to repurchase 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. Common stock equivalents that are anti-dilutive are excluded from the computation of weighted average shares outstanding. The Company includes performance stock unit awards in dilutive potential common shares when they become contingently issuable and have a dilutive impact per authoritative guidance and excludes such awards when they are not contingently issuable.

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

	Year ended December 31,		
	2019	2018	2017
Numerators:			
Net income	\$ 67,659	\$ 56,726	\$ 48,888
Denominators:			
Basic weighted average common shares outstanding	34,350,150	34,451,008	33,897,916
Dilutive effect of share based awards	382,533	579,976	1,212,294
Diluted weighted average common shares outstanding	<u>34,732,683</u>	<u>35,030,984</u>	<u>35,110,210</u>
Earnings per share attributable to ExlService Holdings Inc. stockholders:			
Basic	\$ 1.97	\$ 1.65	\$ 1.44
Diluted	<u>\$ 1.95</u>	<u>\$ 1.62</u>	<u>\$ 1.39</u>
Weighted average potentially dilutive shares considered anti-dilutive and not included in computing diluted earnings per share	106,375	121,344	151,961

8. Cash, Cash Equivalents and Restricted Cash

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

	As of		
	December 31, 2019	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 119,165	\$ 95,881	\$ 86,795
Restricted cash (current)	5,453	5,608	3,674
Restricted cash (non-current)	2,426	2,642	3,808
Cash, cash equivalents and restricted cash	<u>\$ 127,044</u>	<u>\$ 104,131</u>	<u>\$ 94,277</u>

Effective January 1, 2018, the Company adopted ASU 2016-18, *Statements of Cash Flows (Topic 230), Restricted Cash*. Accordingly, restricted cash and restricted cash equivalents is included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the consolidated statements of cash flows. Refer to Note 27 to the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

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9. Property and Equipment, net

Property and equipment, net consists of the following:

	Estimated useful lives (Years)	As of	
		December 31, 2019	December 31, 2018
Owned assets:			
Network equipment and computers	3-5	\$ 98,309	\$ 85,921
Software	3-5	79,746	69,752
Leasehold improvements	3-8	44,982	39,533
Office furniture and equipment	3-8	22,046	20,097
Motor vehicles	2-5	601	635
Buildings	30	1,114	1,140
Land	—	729	746
Capital work in progress	—	10,309	11,026
		257,836	228,850
Less: Accumulated depreciation and amortization		(179,331)	(155,798)
		\$ 78,505	\$ 73,052
Right-of-use assets under finance leases:			
Leasehold improvements		\$ 738	\$ 778
Office furniture and equipment		308	53
Motor vehicles		711	628
		1,757	1,459
Less: Accumulated depreciation and amortization		(1,120)	(1,001)
		\$ 637	\$ 458
Property and equipment, net		\$ 79,142	\$ 73,510

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

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

	Year ended December 31,		
	2019	2018	2017
Depreciation and amortization expense	\$ 30,423	\$ 28,189	\$ 24,574

The depreciation and amortization set forth above includes the effect of foreign exchange gain upon settlement of cash flow hedges, amounting to \$212, \$153 and \$435 for the year ended December 31, 2019, 2018 and 2017, respectively (Refer to Note 17 to the consolidated financial statements for further details).

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

	As of	
	December 31, 2019	December 31, 2018
Cost	\$ 15,784	\$ 8,783
Less : Accumulated amortization	(4,989)	(2,393)
Internally developed software, net	\$ 10,795	\$ 6,390

During the year ended December 31, 2019, there were no significant changes in estimated useful lives of property and equipment.

The amortization expense on internally developed software recognized in the consolidated statements of income was as follows:

	Year ended December 31,		
	2019	2018	2017
Amortization expense	\$ 2,745	\$ 1,417	\$ 640

During the year ended December 31, 2019, the Company performed an impairment test of its long-lived assets related to its Health Integrated business. Based on the results, the long-lived assets carrying value exceeded its fair value. The primary factor contributing to a reduction in the fair value is the wind down of the Health Integrated business, due to an anticipated reduction to the Company's estimated future cash flows. As a result of this analysis, the Company recognized impairment charges of \$2,178 during the year ended December 31, 2019, to write down the carrying value of property and equipment to its fair value. This impairment charge was recorded in the consolidated statements of income under "Impairment and restructuring charges". Refer to Note 24 to the consolidated financial statements for further details.

10. Business Combinations, Goodwill and Intangible Assets

SCIOinspire Holdings Inc.

On July 1, 2018, the Company, through its wholly owned subsidiary ExlService.com, LLC ("Buyer") and Buyer's wholly owned subsidiary, ExlService Cayman Merger Sub, completed the acquisition of SCIO pursuant to an Agreement of Merger dated April 28, 2018 (the "Merger Agreement"). ExlService Cayman Merger Sub, merged with and into SCIO, with SCIO surviving the merger as a wholly-owned subsidiary of the Buyer.

SCIO is a health analytics solution and services company serving healthcare organizations including providers, health plans, pharmacy benefit managers, employers, health services and global life sciences companies. The acquisition is expected to significantly strengthen the Company's capability in the high growth cost optimization and care optimization markets. The acquisition of SCIO is included in the Analytics reportable segment.

The aggregate purchase consideration was \$245,044, including cash and cash equivalents acquired and post-closing adjustments. The aggregate base purchase consideration payable at closing of the merger was \$236,500 based on completion of diligence, which was adjusted based on, among other things, SCIO's cash, debt, working capital position and other adjustments as of the Closing as set forth in the Merger Agreement. To finance the acquisition at Closing, the Company utilized its revolving Credit Facility in the amount of \$233,000, issued 69,459 shares of restricted common stock of the Company in the amount of \$4,080 and paid the balance with available cash on hand.

Pursuant to the Company's business combinations accounting policy, the total purchase consideration for SCIO was allocated to identifiable net tangible and intangible assets based upon their fair values. The excess of the purchase consideration over fair value of identifiable net tangible and intangible assets was recorded as goodwill. In order to allocate the consideration transferred for SCIO, the fair values of all identifiable assets and liabilities were established. For accounting and financial reporting purposes, fair value is defined under ASC No. 820, *Fair Value Measurement and Disclosure*, as the price that would be received upon sale of an asset or the amount paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market

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participants are assumed to be buyers and sellers in the principal (most advantageous) market for the asset or liability. Additionally, fair value measurements for an asset assume the highest and best use of that asset by market participants. Use of different estimates and judgments could yield different results.

The Company's purchase price allocation to net tangible and intangible assets of SCIO is as follows:

Assets:	
Cash and cash equivalents	\$ 9,842
Restricted cash	2,790
Accounts receivable	19,924
Other current assets	2,076
Property and equipment	1,824
Other assets	1,751
Intangible assets	
Customer relationships	47,800
Developed technology	21,400
Trade names and trademarks	3,700
	111,107
Liabilities:	
Current liabilities	(12,482)
Deferred tax liabilities, net	(17,132)
Other non-current liabilities	(200)
	(29,814)
Net assets acquired	\$ 81,293
Goodwill	163,751
Total purchase consideration	\$ 245,044

The fair values of the trade names and trademarks intangible assets were determined by using an "income approach", specifically the relief-from-royalty approach. The basic principle of the relief-from-royalty method is that without ownership of the subject intangible asset, the user of that intangible asset would have to make a stream of payments to the owner of the asset in return for the rights to use that asset. By acquiring the intangible asset, the user avoids these payments. Therefore, a portion of SCIO's earnings, equal to the after-tax royalty that would have been paid for the use of the asset, can be attributed to the firm's ownership. The trade names and trademarks are being amortized on a straight-line basis (which approximates the economic pattern of benefits) over the estimated economic life of 3 years.

The fair values of the developed technology intangible assets were also determined by the relief-from-royalty approach. Similarly, this approach is based on the assumption that in lieu of ownership, a firm would be willing to pay a royalty in order to exploit the related benefits of the technology. Therefore, a portion of SCIO's earnings, equal to the after-tax royalty that would have been paid for the use of the technology, can be attributed to the firm's ownership of the technology. The technology assets are being amortized on a straight-line basis (which approximates the economic pattern of benefits) over the estimated economic life of 5 years.

The fair values of the customer relationships were determined by using an "income approach", specifically the Multi-Period Excess Earnings Method ("MPEEM"). The MPEEM is a specific application of the discounted cash flow method. The principle behind the MPEEM is that the value of an intangible asset is equal to the present value of the incremental after-tax cash flows attributable only to the subject intangible asset after deducting Contributory Asset Charges ("CAC"). The principle behind a CAC is that an intangible asset 'rents' or 'leases' from a hypothetical third party all the assets it requires to produce the cash flows resulting from its development, that each project rents only those assets it needs (including elements of goodwill) and not the ones that it does not need, and that each project pays the owner of the assets a fair return on (and of, when appropriate) the value of the rented assets. The customer relationship assets are being amortized on a straight-line basis (which approximates the economic pattern of benefits) over the estimated economic life of 10 years.

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The goodwill recognized is attributable primarily to expected synergies from continuing operations of SCIO and the Company. The amount of goodwill recognized from SCIO's acquisition is not deductible for tax purposes. The goodwill has been assigned to our Analytics reportable segment based upon the Company's assessment of nature of services rendered by SCIO.

Goodwill

The following table sets forth details of changes in goodwill by reportable segment of the Company:

	Insurance	Healthcare	TT&L	F&A	All Other	Analytics	Total
Balance at January 1, 2018	\$ 38,333	\$ 35,233	\$ 13,679	\$ 48,372	\$ 5,326	\$ 63,538	\$ 204,481
Acquisitions	—	—	—	—	—	163,751	163,751
Measurement period adjustments	—	(1,728)	—	—	—	—	(1,728)
Currency translation adjustments	(130)	—	(982)	(1,179)	—	—	(2,291)
Impairment charges	—	(14,229)	—	—	—	—	(14,229)
Balance at December 31, 2018	\$ 38,203	\$ 19,276	\$ 12,697	\$ 47,193	\$ 5,326	\$ 227,289	\$ 349,984
Currency translation adjustments	73	—	(240)	(288)	—	—	(455)
Balance at December 31, 2019	\$ 38,276	\$ 19,276	\$ 12,457	\$ 46,905	\$ 5,326	\$ 227,289	\$ 349,529

During the fourth quarter of 2019, the Company performed its annual impairment test of goodwill for those reporting units that had goodwill recorded. Key assumptions used in determining the fair value of the Company's reporting units was a long-term revenue growth rate in the terminal year of 3.0% and discount rates ranging from 9.0% to 11.0%. Based on the results, the fair value of each of the Company's reporting units exceeded their carrying value and the Company's goodwill was not impaired. However, for the SCIO reporting unit within the Analytics reportable segment, the fair value was not substantially in excess of its carrying value. The SCIO reporting unit was formed as a result of the SCIO acquisition in July 2018 and its fair value was set at the time of acquisition. As of December 31, 2019, the goodwill associated with the SCIO reporting unit was \$163,751, representing approximately 47.0% of the Company's total goodwill, and the percentage by which the fair value of the SCIO reporting unit exceeded the carrying value as of the date of the most recent annual impairment test was approximately 10.0%. While the goodwill of this reporting unit is not currently impaired, there could be an impairment in the future as a result of changes in certain assumptions. For example, the fair value could be adversely affected and may result in an impairment of goodwill if this reporting unit is not able to expand its existing customer relationships, win new clients, improve profitability, the estimated cash flows are discounted at a higher risk-adjusted rate, or the market multiples decreases. The Company also believes that it is possible that its actual revenue growth rates could be higher than the long-term revenue growth rates used in the impairment test due to a number of factors, including (i) continued demand for the Company's reimbursement and care optimization services to help clients identify overpayments and enhance their claims payment accuracy, and (ii) the Company's ability to offer integrated solutions by leveraging technology platforms, digital, customizable and configurable analytics to deliver better business outcomes for its clients. The Company believes that its discount rate utilized is appropriate to use for its future cash flow assumptions considering current market conditions. However, keeping all other variables constant, a further 50 basis points increase in discount rate will decrease the percentage by which the fair value exceeds the carrying value of the SCIO reporting unit to 6.0%. The Company continues to monitor the cash flows of the SCIO reporting unit for changes in the business environment that could impact recoverability.

The recoverability of goodwill is dependent upon the continued growth of cash flows from our business activities. There can be no assurances that goodwill will not be impaired in future periods. Estimating the fair value of reporting units requires the use of estimates and significant judgments that are based on a number of factors including actual operating results. These estimates and judgements may not be within the control of the Company and accordingly it is reasonably possible that the judgments and estimates described above could change in future periods.

During the fourth quarter of 2018, the Company performed its annual impairment test of goodwill for all its reporting units. Based on the results, the fair values of each of the Company's reporting units exceeded their carrying values except for the Health Integrated reporting unit, within the Healthcare operating segment. The primary factors contributing to a reduction in the fair value of the Health Integrated reporting unit were: (i) revenues and profitability in 2018 were significantly lower than the Company's budget; and (ii) significant changes to the Company's estimated future cash flows and long-term growth assumptions for the Health

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Integrated reporting unit driven by loss of customer contracts, cost pressures and the Company's most recent views of the long-term outlook for the Health Integrated business. As a result of this analysis, the Company recognized a goodwill impairment charge of \$14,229 during the fourth quarter to write down the carrying value of Health Integrated's goodwill to its fair value of \$nil as of December 31, 2018. This impairment charge was recorded in the consolidated statements of income under "Impairment and restructuring charges"

Intangible Assets

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

	As of December 31, 2019			
	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment	Net Carrying Amount
Finite-lived intangible assets:				
Customer relationships	\$ 97,602	\$ (43,330)	\$ —	\$ 54,272
Developed technology	26,976	(10,687)	—	16,289
Trade names and trademarks	5,100	(2,579)	—	2,521
	<u>\$ 129,678</u>	<u>\$ (56,596)</u>	<u>\$ —</u>	<u>\$ 73,082</u>
Indefinite-lived intangible assets:				
Trade names and trademarks	\$ 900	\$ —	\$ —	\$ 900
Total intangible assets	<u>\$ 130,578</u>	<u>\$ (56,596)</u>	<u>\$ —</u>	<u>\$ 73,982</u>

	As of December 31, 2018			
	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment	Net Carrying Amount
Finite-lived intangible assets:				
Customer relationships	\$ 129,790	\$ (56,367)	\$ (5,549)	\$ 67,874
Leasehold benefits	2,644	(2,567)	—	77
Developed technology	37,154	(14,653)	—	22,501
Non-compete agreements	2,045	(1,937)	—	108
Trade names and trademarks	9,639	(5,326)	(278)	4,035
	<u>\$ 181,272</u>	<u>\$ (80,850)</u>	<u>\$ (5,827)</u>	<u>\$ 94,595</u>
Indefinite-lived intangible assets:				
Trade names and trademarks	\$ 900	\$ —	\$ —	\$ 900
Total intangible assets	<u>\$ 182,172</u>	<u>\$ (80,850)</u>	<u>\$ (5,827)</u>	<u>\$ 95,495</u>

The amortization expense for the year is as follows:

	Year ended December 31,		
	2019	2018	2017
Amortization expense	<u>\$ 21,558</u>	<u>\$ 20,377</u>	<u>\$ 13,975</u>

During the fourth quarter of 2018, the Company recognized impairment charges of \$5,549 and \$278 related to its customer relationships and trademarks intangible assets, respectively, in the Health Integrated reporting unit, within the Healthcare operating segment. The Company tested these intangible assets for recoverability due to indicators warranting the impairment test such as: (i) revenues and profitability in 2018 were significantly lower than the Company's budget, and (ii) significant changes to the Company's estimated future cash flows and long-term growth assumptions for the Health Integrated reporting unit driven by loss of customer contracts, cost pressures and the Company's most recent views of the long-term outlook for the Health Integrated business. Based on the results of its testing, the Company determined that the carrying value of the intangible assets was not recoverable, and an

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impairment charge was recorded to the extent that carrying value exceeded estimated fair value. This impairment charge was recorded in the consolidated statements of income under "Impairment and restructuring charges". Subsequent to the impairment test, Health Integrated reporting unit's customer relationships and trademarks intangibles assets were reduced to \$nil as of December 31, 2018.

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

	(in years)
Customer relationships	7.66
Developed technology	3.64
Trade names and trademarks (Finite lived)	2.38

Estimated future amortization expense related to intangible assets as of December 31, 2019 is as follows:

2020	\$	14,458
2021		12,753
2022		11,335
2023		9,046
2024		6,704
2025 and thereafter		18,786
Total	\$	<u>73,082</u>

11. Other Current Assets

Other current assets consist of the following:

	As of	
	December 31, 2019	December 31, 2018
Derivative instruments	\$ 4,076	\$ 4,059
Advances to suppliers	1,581	2,910
Receivables from statutory authorities	12,608	14,145
Contract assets	1,414	1,201
Deferred contract fulfillment costs	1,673	1,236
Others	3,242	4,689
Other current assets	<u>\$ 24,594</u>	<u>\$ 28,240</u>

12. Other Assets

Other assets consist of the following:

	As of	
	December 31, 2019	December 31, 2018
Lease deposits	\$ 9,983	\$ 8,891
Derivative instruments	3,433	1,971
Deposits with statutory authorities	6,252	6,273
Term deposits	1,983	315
Contract assets	3,977	4,244
Deferred contract fulfillment costs	5,582	2,815
Others	4,806	6,506
Other assets	<u>\$ 36,016</u>	<u>\$ 31,015</u>

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13. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	As of	
	December 31, 2019	December 31, 2018
Accrued expenses	\$ 53,139	\$ 44,711
Derivative instruments	1,783	3,204
Client liabilities	6,378	6,933
Other current liabilities	9,723	9,321
Accrued expenses and other current liabilities	\$ 71,023	\$ 64,169

14. Other Non-Current Liabilities

Other non-current liabilities consist of the following:

	As of	
	December 31, 2019	December 31, 2018
Derivative instruments	\$ 1,250	\$ 3,075
Unrecognized tax benefits	1,047	804
Deferred rent	—	7,834
Retirement benefits	6,517	3,616
Deferred transition revenue	1,911	945
Others	987	247
Other non-current liabilities	\$ 11,712	\$ 16,521

15. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss (“AOCI”) consists 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 815. Changes in the fair values of these foreign currency exchange contracts are recognized in AOCI on the Company’s consolidated balance sheets until the settlement of those contracts. The balances as of December 31, 2019 and 2018 are as follows:

	As of	
	December 31, 2019	December 31, 2018
Cumulative foreign currency translation loss	\$ (87,591)	\$ (84,105)
Unrealized gain/(loss) on cash flow hedges	4,604	(218)
Retirement benefits	(1,780)	918
Income tax expense relating to above ⁽¹⁾	(125)	(62)
Accumulated other comprehensive loss	\$ (84,892)	\$ (83,467)

⁽¹⁾ These are income tax expense recognized on cash flow hedges and retirement benefits. Refer to Note 22 to the consolidated financial statements.

16. Fair Value Measurements

ASC Topic 820, “Fair Value Measurements and Disclosures” (“ASC 820”) defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability as against assumptions specific to the

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entity. In addition, the fair value of liabilities should include consideration of non-performance risk, including the Company's own credit risk.

ASC 820 establishes a three-level hierarchy of fair value measurements based on whether the inputs to those measurements are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The fair-value hierarchy requires the use of observable market data when available and consists of the following levels:

- Level 1—Quoted prices for identical instruments in active markets;
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets; and
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

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 December 31, 2019 and 2018.

As of December 31, 2019	Level 1	Level 2	Level 3	Total
Assets				
Mutual funds*	\$ 166,330	\$ —	\$ —	\$ 166,330
Derivative financial instruments	—	7,509	—	7,509
Total	\$ 166,330	\$ 7,509	\$ —	\$ 173,839
Liabilities				
Derivative financial instruments	\$ —	\$ 3,033	\$ —	\$ 3,033
Total	\$ —	\$ 3,033	\$ —	\$ 3,033
As of December 31, 2018				
Assets				
Mutual funds*	\$ 142,408	\$ —	\$ —	\$ 142,408
Derivative financial instruments	—	6,030	—	6,030
Total	\$ 142,408	\$ 6,030	\$ —	\$ 148,438
Liabilities				
Derivative financial instruments	\$ —	\$ 6,279	\$ —	\$ 6,279
Total	\$ —	\$ 6,279	\$ —	\$ 6,279

* Represents those short-term investments which are carried at the fair value option under ASC 825 "Financial Instruments" as of December 31, 2019 and 2018.

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 consolidated financial statements for further details.

Financial instruments not carried at fair value:

The Company's other financial instruments not carried at fair value consist primarily of cash and cash equivalents, short-term investments (except investment in mutual funds, as disclosed above), restricted cash, accounts receivable, accounts payable, and accrued expenses for which fair values approximate their carrying amounts due to their short-term nature. The carrying value of the Company's outstanding revolver credit approximates its fair value because the Company's interest rate yield is near current

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market rates for comparable debt instruments. Lease obligations are recognized based on the present value of lease payments over the lease term which approximates fair value

Convertible Senior Notes:

The total estimated fair value of the convertible senior notes as of December 31, 2019 and 2018 was \$149,934 and \$130,510, respectively. The fair value was determined based on the market yields for similar Notes as of December 31, 2019 and 2018, respectively. The Company considers the fair value of the Notes to be a Level 2 measurement due to the limited inputs available for its fair valuation.

Non-recurring fair value measurements of assets:

Non-recurring fair value measurements include impairment tests conducted by the Company during the year ended December 31, 2019 of its long-lived assets and ROU assets related to its Health Integrated business. The fair value determination for ROU assets was based on third party quotes, which are Level 2 inputs, and for other long-lived assets, it was based on Company's internal assessment, which are Level 3 inputs. During the year ended December 31, 2019, the Company recognized impairment charges on and long-lived assets and ROU assets to write down the carrying value to their fair values. Refer to Notes 9 and 21 to the consolidated financial statements for further details.

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 so as 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 \$410,390 (including \$4,300 of range forward contracts) as of December 31, 2019 and \$362,435 (including \$6,900 of range forward contracts) as of December 31, 2018.

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 resultant foreign exchange gain/(loss) upon settlement of derivative financial instruments are recorded along with the underlying hedged item in the same line of consolidated statements of income as either a part of "Cost of revenues", "General and administrative expenses", "Selling and marketing expenses", "Depreciation and amortization expense", as applicable.

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 Company estimates that approximately \$2,421 of net derivative gains, excluding tax effects, included in AOCI, representing changes in the value of cash flow hedges, could be reclassified into earnings within the next twelve months based on exchange rates prevailing as of December 31, 2019. At December 31, 2019, the maximum outstanding term of the cash flow hedges was 45 months.

The Company 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, against the risk of foreign currency fluctuations associated with remeasurement of such assets and liabilities to functional currency. These derivatives do not qualify as fair value hedges under ASC 815. Changes in the fair value of these derivatives are recognized in the consolidated statements of income and are included in foreign exchange gain/(loss). The Company's primary exchange rate exposure is with the Indian Rupee, the U.K. pound sterling and the Philippine peso. The Company also has exposure to Colombian pesos, Czech Koruna, the Euro, South African ZAR and other local currencies in which it operates. Outstanding foreign currency forward contracts amounted to \$124,045, GBP 10,843 and EUR 1,289 as of December 31, 2019 and amounted to \$125,503, GBP 15,616 and EUR 512 as of December 31, 2018.

The Company also uses forward contracts designated as net investment hedges to hedge foreign currency risks related to the Company's investment in foreign subsidiaries. Gains and losses on these forward contracts are recognized in AOCI as part of the foreign currency translation adjustment.

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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	
	December 31, 2019	December 31, 2018
Foreign currency exchange contracts		
Other current assets	\$ 3,945	\$ 4,022
Other assets	\$ 3,433	\$ 1,971
Accrued expenses and other current liabilities	\$ 1,524	\$ 3,137
Other non-current liabilities	\$ 1,250	\$ 3,075

Derivatives not designated as hedging instruments:	As of	
	December 31, 2019	December 31, 2018
Foreign currency exchange contracts		
Other current assets	\$ 131	\$ 37
Accrued expenses and other current liabilities	\$ 259	\$ 67

The following tables set forth the effect of foreign currency exchange contracts on the consolidated statements of income and accumulated other comprehensive loss for the years ended December 31, 2019, 2018 and 2017:

Forward Exchange Contracts:	Year ended December 31,		
	2019	2018	2017
Unrealized gain/(loss) recognized in AOCI			
Derivatives in cash flow hedging relationships	\$ 8,773	\$ (13,919)	\$ 19,802
Gain/(loss) recognized in consolidated statements of income			
Derivatives not designated as hedging instruments	\$ 3,306	\$ (3,224)	\$ 5,056

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

	Year ended December 31,					
	2019		2018		2017	
	As per consolidated statements of income	Gain on foreign currency exchange contracts	As per consolidated statements of income	Gain/(loss) on foreign currency exchange contracts	As per consolidated statements of income	Gain on foreign currency exchange contracts
Cash flow hedging relationships						
Location in consolidated statements of income where gain was reclassified from AOCI						
Cost of revenues	\$ 655,490	\$ 3,269	\$ 584,855	\$ 2,481	\$ 495,142	\$ 5,465
General and administrative expenses	\$ 126,909	\$ 424	\$ 116,202	\$ 443	\$ 102,515	\$ 960
Selling and marketing expenses	\$ 71,842	\$ 46	\$ 63,612	\$ 44	\$ 53,379	\$ 103
Depreciation and amortization expense	\$ 51,981	\$ 212	\$ 48,566	\$ 181	\$ 38,549	\$ 371
		<u>\$ 3,951</u>		<u>\$ 3,149</u>		<u>\$ 6,899</u>
Derivatives not designated as hedging instruments						
Location in consolidated statements of income where gain/(loss) was recognized						
Foreign exchange gain/(loss), net	\$ 3,752	\$ 3,306	\$ 4,787	\$ (3,224)	\$ 2,839	\$ 5,056
	<u>\$ 3,752</u>	<u>\$ 3,306</u>	<u>\$ 4,787</u>	<u>\$ (3,224)</u>	<u>\$ 2,839</u>	<u>\$ 5,056</u>

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Effect of net investment hedges on accumulated other comprehensive loss:

	Year ended December 31,		
	Amount of (loss) recognized in AOCI		
Net investment hedging relationships	2019	2018	2017
Foreign exchange contracts	\$ (580)	\$ —	\$ —
	\$ (580)	\$ —	\$ —

18. Borrowings*Revolver Credit Agreement*

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 "Credit Agreement"). The Credit Agreement provides for a \$200,000 revolving credit facility (the "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 Credit Agreement. The Credit Agreement also includes a letter of credit sub facility. The 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 Credit Agreement may be used for working capital and general corporate purposes, including permitted acquisitions. On July 2, 2018, the Company exercised its option under the Credit Agreement to increase the commitments by \$100,000 thereby utilizing the entire revolver under the Credit Facility of \$300,000, to fund the SCIO acquisition. The incremental commitments were made pursuant to (and constitute part of) the existing commitments and are subject to the terms and conditions applicable to the existing commitments as set forth in the Credit Agreement.

Depending on the type of borrowing, loans under the Credit Agreement bear interest at a rate equal to the specified prime rate (alternate base rate) or adjusted LIBOR 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 LIBOR rate. The revolving credit commitments under the 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 Credit Facility carried an effective interest rate of 4.0% per annum and 3.4% per annum, respectively, during the years ended December 31, 2019 and 2018.

Obligations under the 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 Credit Agreement contains customary 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 Credit Agreement contains a covenant to not permit the interest coverage ratio (the ratio of EBITDA to cash interest expense) or the total net leverage ratio (total funded indebtedness, less unrestricted domestic cash and cash equivalents not to exceed \$50,000 to EBITDA) 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 December 31, 2019, the Company was in compliance with all financial and non-financial covenants listed under the Credit Agreement.

The Company entered into a second amendment (the "Amendment") to its Credit Agreement, as amended, among the Company, as borrower, with certain lenders, and Citibank, N.A. as Administrative Agent to, among other things, permit the issuance by the Company of the convertible notes, and settlement upon maturity or conversion thereof, in accordance with the Investment Agreement, the indenture dated as of October 4, 2018 and the other documents entered into in connection therewith.

As of December 31, 2019, the Company had outstanding indebtedness under the credit facility of \$99,000 of which \$40,000 is expected to be repaid within the next twelve months and is included under "current portion of long-term borrowings" and of which \$59,000 is included under "long-term borrowings, less current portion" in the consolidated balance sheets. As of December 31, 2018, the Company had an outstanding indebtedness under the credit facility of \$150,000, of which \$20,000 was

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included under “current portion of long-term borrowings,” and the balance of \$130,000 was included under “long-term borrowings, less current portion” in the consolidated balance sheets.

The Company incurred certain debt issuance costs, which are deferred and amortized as an adjustment to interest expense over the term of the credit facility. The unamortized debt issuance costs as of December 31, 2019 and 2018 was \$748 and \$1,006, respectively and is included under “other current assets” and “other assets” in the consolidated balance sheets.

Convertible Senior Notes

On October 1, 2018, the Company entered into an investment agreement (the “Investment Agreement”) with Orogen Echo LLC (the “Purchaser”), an affiliate of The Orogen Group LLC, relating to the issuance to the Purchaser of \$150,000 in an aggregate principal amount of 3.50% per annum Convertible Senior Notes due October 1, 2024 (the “Notes”). The transactions contemplated by the Investment Agreement, including the issuance of the Notes, closed on October 4, 2018. The Notes bear interest at a rate of 3.50% per annum, payable semi-annually in arrears in cash on April 1 and October 1 of each year. During the year ended December 31, 2019 and 2018, the Company recognized interest expense of \$5,206 and \$1,313, respectively, on the Notes. The Notes are convertible at an initial conversion rate of 13.3333 shares of the common stock per one thousand dollar principal amount of the Notes (which represents an initial conversion price of approximately \$75 per share). With certain exceptions, upon a fundamental change, as defined in the Indenture, the holders of the Notes may require that the Company to repurchase all or part of the principal amount of the Notes at a purchase price equal to the principal amount plus accrued and unpaid interest. The Company may redeem the principal amount of the Notes, at its option, in whole but not in part, at a purchase price equal to the principal amount plus accrued and unpaid interest on or after October 1, 2021, if the closing sale price of the common stock exceeds 150% of the then-current conversion price for 20 or more trading days in the 30 consecutive trading day period preceding the Company’s exercise of this redemption right (including the trading day immediately prior to the date of the notice of redemption). The Company may elect to settle conversions of the Notes by paying or delivering, as the case may be, cash, shares of the Company’s common stock or a combination of cash and shares of the Company’s common stock. The Company used the proceeds from the issuance of the Notes to repay \$150,000 of its outstanding borrowings under the Credit Facility.

The net proceeds from the issuance of the Notes were approximately \$149,000, after deducting debt issuance costs of \$1,000 and offering expenses of approximately \$442 paid by the Company. These transaction and debt issuance costs were allocated between the liability and equity components based on their relative values. The transaction costs and debt issuance costs allocated to the liability and equity components were \$1,279 and \$163, respectively. The debt issuance costs allocated to the liability component are deferred and amortized as an adjustment to interest expense over the term of the Notes. The unamortized debt issuance costs is presented as a direct reduction from the Notes in the consolidated balance sheets. The unamortized debt issuance costs as of December 31, 2019 and 2018 was \$1,018 and \$1,127, respectively.

The Company accounted for the liability and equity components of the Notes separately to reflect its non-convertible debt borrowing rate. The estimated fair value of the liability component at issuance of \$133,077 was determined using a discounted cash flow technique, which considered debt issuances with similar features of the Company’s debt, excluding the conversion feature. The resulting effective interest rate for the Notes was 5.75% per annum. The excess of the gross proceeds received over the estimated fair value of the liability component totaling \$16,923 was allocated to the conversion feature (equity component, recorded as additional paid-in capital) with a corresponding offset recognized as a discount to reduce the net carrying value of the Notes. The discount is being amortized to interest expense over a six-year period ending October 1, 2024 (the expected life of the liability component) using the effective interest method. During the year ended December 31, 2019 and 2018, the Company amortized \$2,472 and \$600 respectively of the discount to interest expense, on the Notes. The unamortized debt discount on the Notes as of December 31, 2019 and 2018 was \$13,851 and \$16,323, respectively.

Borrowings also includes structured payables which are in the nature of debt, amounting to \$867 and \$2,114 as of December 31, 2019 and 2018, respectively, of which \$867 and \$1,423 is included under “current portion of long-term borrowings”, \$nil and \$691, respectively, included under “long-term borrowings, less current portion” in the consolidated balance sheets.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

Future principal payments/maturities for all of the Company's borrowings as of December 31, 2019 were as follows:

	Notes	Revolver Credit	Structured Payables	Total
2020	\$ —	\$ 40,000	\$ 867	\$ 40,867
2021	—	40,000	—	40,000
2022	—	19,000	—	19,000
2023	—	—	—	—
2024	150,000	—	—	150,000
Total	\$ 150,000	\$ 99,000	\$ 867	\$ 249,867

Letters of Credit

In the ordinary course of business, the Company provides standby letters of credit to third parties primarily for facility leases. As of December 31, 2019 and 2018, the Company had outstanding letters of credit of \$461 and \$nil, respectively, that were not recognized in the consolidated balance sheets.

19. Capital Structure**Common Stock**

The Company has one class of common stock outstanding.

During the year ended December 31, 2019 and 2018, the Company purchased 23,859 and 51,446 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 \$1,490 and \$3,122, respectively. The weighted average purchase price per share of \$62.47 and \$60.68, respectively, was the closing 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 2017 through 2019 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.

On December 16, 2019, the Company's Board of Directors authorized a \$200,000 common stock repurchase program beginning January 1, 2020 through December 31, 2022. The shares may be purchased by the Company from time to time from the open market and through private transactions, or otherwise, as determined by the Company's management as market conditions warrant.

During the year ended December 31, 2019, the Company purchased 643,486 shares of its common stock for an aggregate purchase price of approximately \$39,874, including commissions, representing an average purchase price per share of \$61.96 under the 2017 Repurchase Program.

During the year ended December 31, 2018, the Company purchased 674,604 shares of its common stock for an aggregate purchase price of approximately \$39,987, including commissions, representing an average purchase price per share of \$59.27 under 2017 Repurchase Program.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

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.

Dividends

The Company has not paid or declared any cash dividends on its common stock during the years ended December 31, 2019, 2018 and 2017. The Company's line of credit with a bank could restrict, or its terms of the Notes could impair, the Company's ability to declare or make any dividends or similar distributions.

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.

The benefit obligation has been measured as of December 31, 2019. The following table sets forth the activity and the funded status of the Gratuity Plans and the amounts recognized in the Company's consolidated financial statements at the end of the relevant periods:

	2019	2018
Change in projected benefit obligation:		
Projected benefit obligation as of January 1	\$ 11,044	\$ 10,305
Business acquisition	—	326
Service cost	1,953	1,735
Interest cost	875	714
Benefits paid	(960)	(1,066)
Actuarial loss/(gain)	2,577	(134)
Effect of exchange rate changes	(178)	(836)
Projected benefit obligation as of December 31	\$ 15,311	\$ 11,044
Unfunded amount-non-current	\$ 6,517	\$ 3,616
Unfunded amount-current	10	8
Total accrued liability	\$ 6,527	\$ 3,624
Accumulated benefit obligation	\$ 10,743	\$ 7,239

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

Components of net periodic benefit costs:

	Year ended December 31,		
	2019	2018	2017
Service cost	\$ 1,953	\$ 1,735	\$ 1,933
Interest cost	875	714	645
Expected return on plan assets	(568)	(514)	(401)
Amortization of actuarial (gain)/loss	(159)	(153)	256
Net periodic benefit cost	\$ 2,101	\$ 1,782	\$ 2,433

The components of accumulated other comprehensive (loss)/gain, excluding tax effects, as of December 31, 2019, 2018 and 2017 are as follows:

	December 31,		
	2019	2018	2017
Net actuarial (loss)/gain	\$ (1,762)	\$ 940	\$ 697
Net prior service cost	(18)	(22)	(8)
Accumulated other comprehensive (loss)/gain, excluding tax effects	\$ (1,780)	\$ 918	\$ 689

The amount in accumulated other comprehensive loss that is expected to be recognized as a component of net periodic benefit cost over the next fiscal year is \$558.

The weighted average actuarial assumptions used to determine benefit obligations and net gratuity cost are:

	December 31,		
	2019	2018	2017
Discount rate	6.5%	7.5%	7.0%
Rate of increase in compensation levels	6.0%	8.2%	9.1%
Expected long term rate of return on plan assets per annum	7.5%	7.3%	8.3%

The Company evaluates these assumptions annually based on its long-term plans of growth and industry standards. The discount rates are based on current market yields on government securities adjusted for a suitable risk premium.

Expected benefit payments during the year ending December 31,

2020	\$ 2,408
2021	\$ 2,234
2022	\$ 1,969
2023	\$ 1,812
2024	\$ 1,563
2025 to 2029	\$ 5,712

The Gratuity Plan in India is partially funded and the Philippines plan is unfunded. The Company makes annual contributions to the employee's gratuity fund established with Life Insurance Corporation of India and HDFC Standard Life Insurance Company. They calculate the annual contribution required to be made by the Company and manage the Gratuity Plans, including any required payouts. Fund managers manage these funds on a cash accumulation basis and declare interest retrospectively on March 31 of each year. The Company earned a return of approximately 7.5% per annum on these Gratuity Plans for the year ended December 31, 2019.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

Change in Plan Assets

Plan assets at January 1, 2018	\$	6,915
Business acquisition		231
Actual return		779
Employer contribution		1,175
Benefits paid*		(1,059)
Effect of exchange rate changes		(621)
Plan assets at December 31, 2018	\$	7,420
Actual return		606
Employer contribution		1,905
Benefits paid*		(957)
Effect of exchange rate changes		(190)
Plan assets at December 31, 2019	\$	<u>8,784</u>

* Benefits payments were substantially made through the plan assets during the year ended December 31, 2019 and 2018.

The Company maintains several 401(k) plans (the “401(k) Plans”) under Section 401(k) of the Internal Revenue Code of 1986, as amended (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 accrued for contributions to the 401(k) Plans of \$3,617, \$3,423 and \$2,709 during the years ended December 31, 2019, 2018 and 2017, respectively.

During the years ended December 31, 2019, 2018 and 2017, the Company contributed \$10,395, \$7,614 and \$7,116 respectively, for various defined contribution plans on behalf of its employees in India, the Philippines, Romania, the Czech Republic, South Africa, Colombia, and Singapore.

21. Leases

The Company conducts its operations using facilities leased under operating lease agreements that expire at various dates. The Company finances its use of certain motor vehicles and other equipment under various lease arrangements provided by financial institutions.

The Company has performed an evaluation of its contracts with suppliers in accordance with Topic 842 and has determined that, except for leases for office facilities, motor vehicles and other equipment as described above, none of the Company’s contracts contain a lease.

In assessment of the lease term, the Company considers the extension option as part of its lease term for those lease arrangements where the Company is reasonably certain of availing the extension option.

The lease agreements do not contain any covenant to impose any restrictions except for market-standard practice for similar lease arrangements.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

Supplemental balance sheet information

	As of December 31, 2019	
Operating Lease		
Operating lease right-of-use assets	\$	86,396
Operating lease liabilities - Current	\$	24,148
Operating lease liabilities - Non-current		74,709
Total operating lease liabilities	\$	98,857
Finance Lease		
Property and equipment, gross	\$	1,757
Accumulated depreciation		(1,120)
Property and equipment, net	\$	637
Finance lease liabilities - Current	\$	253
Finance lease liabilities - Non-current		430
Total finance lease liabilities	\$	683

During the year ended December 31, 2019, the Company performed an impairment test of its long-lived assets related to its Health Integrated business. Based on the results, the operating lease right-of-use assets carrying value exceeded its fair value. The primary factor contributing to a reduction in the fair value is the wind down of the Health Integrated business, due to an anticipated reduction to the Company's estimated future cash flows. As a result of this analysis, the Company recognized an impairment charge of \$1,449 during year ended December 31, 2019, to write down the carrying value of operating lease right-of-use assets to its fair value. This impairment charge was recorded in the consolidated statements of income under "Impairment and restructuring charges". Refer to Note 24 to the consolidated financial statements for further details.

The components of lease cost, which are included in the Company's consolidated statements of income, are as follows:

<i>Lease cost</i>	Year ended December 31, 2019	
Finance lease:		
Amortization of right-of-use assets	\$	255
Interest on lease liabilities		93
Operating lease^(a)		27,335
Sublease income		(146)
Total lease cost	\$	27,537

Operating lease cost for leases classified as such under Topic 840 for the years ended December 31, 2018, and 2017 was \$25,573 and \$24,015, respectively.

(a) Includes short-term leases, which are immaterial.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

Supplemental cash flow and other information related to leases are as follows:

	Year ended December 31, 2019
Cash payments for amounts included in the measurement of lease liabilities :	
Operating cash outflows for operating leases	\$ 24,813
Operating cash outflows for finance leases	\$ 93
Financing cash outflows for finance leases	\$ 336
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 36,473
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 506
Weighted-average remaining lease term	
Finance lease	2.3 years
Operating lease	6.0 years
Weighted-average discount rate	
Finance lease	9.9%
Operating lease	7.6%

The Company determines the incremental borrowing rate by adjusting the benchmark reference rates, applicable to the respective geographies where the leases were entered, with appropriate financing spreads and lease specific adjustments for the effects of collateral.

As of December 31, 2019, the Company has entered into an operating lease for a facility that has not yet commenced with lease liability of approximately \$11,900. This operating lease will commence in January 2020 and has a lease term of 15 years.

Maturities of lease liabilities as of December 31, 2019 are as follows:

	Operating Leases	Finance Leases
2020	\$ 26,932	\$ 325
2021	23,783	251
2022	21,526	157
2023	19,381	86
2024	14,865	22
2025 and thereafter	23,983	—
Total lease payments	\$ 130,470	\$ 841
Less: Imputed interest	31,613	158
Present value of lease liabilities	\$ 98,857	\$ 683

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

Maturities of minimum lease payments as of December 31, 2018 are as follows:

During the next twelve months ending December 31,	Operating Leases	Capital Leases
2019	\$ 23,431	\$ 283
2020	20,039	163
2021	16,924	120
2022	14,804	58
2023	12,859	49
2024	11,114	—
2025 and thereafter	15,000	—
Total minimum lease payment	\$ 114,171	\$ 673
Less: imputed interest	NA	135
Present value of minimum lease payments	NA	538
Less: current portion	NA	223
Long term capital lease obligation	NA	\$ 315

22. Income Taxes

The components of income before income taxes consist of the following:

	Year ended December 31,		
	2019	2018	2017
Domestic	\$ (16,685)	\$ (24,442)	\$ 4,626
Foreign	99,785	84,812	80,408
	\$ 83,100	\$ 60,370	\$ 85,034

The income tax expense consists of the following:

	Year ended December 31,		
	2019	2018	2017
Current provision/(benefit):			
Domestic	\$ 10,823	\$ (13,249)	\$ 17,407
Foreign	16,694	17,271	18,008
	\$ 27,517	\$ 4,022	\$ 35,415
Deferred provision/(benefit):			
Domestic	\$ (13,912)	\$ (1,999)	\$ 2,618
Foreign	1,567	1,374	(1,887)
	\$ (12,345)	\$ (625)	\$ 731
Income tax expense	\$ 15,172	\$ 3,397	\$ 36,146

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

Income taxes recognized in other comprehensive income are as follows:

	Year ended December 31,		
	2019	2018	2017
Deferred taxes (expense)/benefit :			
Unrealized gain/(loss) on cash flow hedges	\$ (391)	\$ 4,803	\$ (3,711)
Retirement benefits	328	(21)	(268)
Total Income tax (expense)/benefit recognized in other comprehensive income	\$ (63)	\$ 4,782	\$ (3,979)

The effective income tax rate differs from the amount computed by applying the U.S. federal statutory income tax rate to income before income taxes approximately as follows:

	Year ended December 31,		
	2019	2018	2017
Expected tax expense	\$ 17,451	\$ 12,678	\$ 29,762
Change in valuation allowance	—	—	(21)
Impact of tax holiday	(5,920)	(5,448)	(4,396)
Foreign tax rate differential	1,660	5,014	(2,616)
Deferred tax provision/(benefit)	3,026	(3,915)	(1,887)
Unrecognized tax benefits and interest	174	(88)	(3,905)
State taxes, net of Federal taxes	2,137	2,201	339
Non-deductible expenses	1,329	3,066	825
US Tax Reform Act impact	—	176	29,185
Excess tax benefit on stock-based compensation	(2,306)	(7,227)	(9,797)
Research & Development credit	(1,650)	(1,500)	(844)
Prior period items	(143)	(1,466)	—
Others	(586)	(94)	(499)
Tax expense	\$ 15,172	\$ 3,397	\$ 36,146

The Company recorded income tax expense of \$15,172 and \$3,397 for the year ended December 31, 2019 and 2018, respectively. The effective tax rate increased from 5.6% during the year ended December 31, 2018 to 18.3% during the year ended December 31, 2019 primarily as a result of: (i) recording of a one-time tax benefit of \$6,274 with respect to unused 2018 foreign branch income tax credits under the Internal Revenue Code of 1986, as amended, during the year ended December 31, 2018, (ii) recording of higher excess tax benefits related to stock awards of \$7,227 pursuant to ASU No. 2016-09 during the year ended December 31, 2018 compared to \$2,306 during the year ended December 31, 2019, (iii) lower tax expense of \$3,072 on account of impairment and restructuring charges recorded during the year ended December 31, 2018 compared to \$888 during the year ended December 31, 2019, partially offset by (iv) higher tax exemptions/incentives and a lower tax rate for qualifying Indian subsidiaries due to a change in legislation during the year ended December 31, 2019.

During the year 2018, the Company made an election to change the tax status of most of its controlled foreign corporations (“CFC”) to disregarded entities for U.S. income tax purposes. As a result, the Company no longer has undistributed earnings in connection with these CFCs. The Transition Tax resulted in previously taxed income (“PTI”) which may be subject to withholding taxes and currency gains or losses upon repatriation. The Company presently does not intend to distribute its PTI and has not recorded any deferred taxes related to its investment in foreign subsidiaries. If, in the future, the Company changes its present intention regarding the distribution of PTI, additional taxes may be required and would be recorded in the period the intention changes. The Company has adopted an accounting policy to treat Global Intangible Low-Taxed Income (“GILTI”) as a period cost.

EXLSERVICE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)
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Certain operations centers in India, which were established in Special Economic Zones (“SEZs”), are eligible for tax incentives until 2025. These operations centers are eligible for a 100% income tax exemption for first 5 years of operations and 50% exemption for a period of 5 years thereafter.

In 2019, the Government of India introduced a new tax regime for certain Indian companies by enacting the Taxation Laws (Amendment) Act, 2019. The new tax regime is optional and provides for a lower tax rate for Indian companies, subject to certain conditions which among other things includes not availing of specified exemptions or incentives. Some of the Indian subsidiaries have opted for the new tax regime to obtain the benefit of a lower tax rate.

The Company has also benefitted from a corporate tax holiday in the Philippines for our operations centers established there over the last several years. The tax holiday expired for few of our centers in 2014, 2016, 2018 and in 2019 and will expire for other centers by year 2022, which may lead to an increase in our overall tax rate. Following the expiry of the tax exemption, income generated from centers in the Philippines will be taxed at the prevailing annual tax rate, which is currently 5.0% on gross income.

The diluted earnings per share effect of the tax holiday is \$0.17, \$0.16 and \$0.13 for the years ended December 31, 2019, 2018 and 2017, respectively.

The components of the deferred tax balances as of December 31, 2019 and 2018 are as follows:

	As of	
	December 31, 2019	December 31, 2018
Deferred tax assets:		
Depreciation and amortization expense	\$ 12,319	\$ 3,731
Stock-based compensation	9,313	8,614
Accrued employee costs and other expenses	9,805	3,596
Net operating loss carry forward	2,896	1,113
Unrealized exchange loss	1,136	6,671
Deferred rent	4,503	2,255
Others	745	1,380
	\$ 40,717	\$ 27,360
Valuation allowance	(202)	(99)
Deferred tax assets	\$ 40,515	\$ 27,261
Deferred tax liabilities:		
Unrealized exchange gain	\$ 505	\$ 115
Intangible assets	20,696	19,289
Unamortized discount on convertible senior notes	3,395	4,105
Others	5,030	5,595
Deferred tax liabilities	\$ 29,626	\$ 29,104
Net deferred tax assets/(liabilities)	\$ 10,889	\$ (1,843)

Deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective tax bases and operating loss carry forwards. At December 31, 2019 and 2018, the Company performed an analysis of the deferred tax asset valuation allowance for net operating loss carry forward for its domestic and foreign entities. Based on this analysis, the Company continues to carry a valuation allowance on the deferred tax assets on certain net operating loss carry forwards. Accordingly, the Company had recorded a valuation allowance of \$202 and \$20 as of December 31, 2019 and 2018, respectively. The Company also recorded a valuation allowance of \$nil and \$79 related to the tax credit carry forward as of December 31, 2019 and 2018, respectively.

The Company in connection with its recent acquisitions has acquired federal and state net operating losses in the United States. As of December 31, 2019 and 2018, the Company has federal net operating loss carry forward of \$nil and \$444, respectively, which expire through various years until 2032. The Company’s federal net operating losses carry forward are subject to certain

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

annual utilization limitations under Section 382 of the Code. The Company also has state and local net operating losses carry forwards of varying amounts, which are subject to limitations under the applicable rules and regulations of those taxing jurisdictions. The Company estimates that it will be able to utilize substantially all of the losses before their expiration.

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

The following table summarizes the activity related to the unrecognized tax benefits for the years ended December 31, 2019, 2018 and 2017.

	2019	2018	2017
Balance as of January 1	\$ 804	\$ 824	\$ 3,087
Increases related to prior year tax positions	69	—	—
Decreases related to prior year tax positions	(156)	(320)	(2,520)
Increases related to current year tax positions	330	300	169
Effect of exchange rate changes	—	—	88
Balance as of December 31	<u>\$ 1,047</u>	<u>\$ 804</u>	<u>\$ 824</u>

The unrecognized tax benefits as of December 31, 2019 of \$1,047, if recognized, would impact the effective tax rate.

The Company has not recognized any interest in each of the years ended December 31, 2019, 2018 and 2017. As of December 31, 2019 and 2018, the Company has not accrued interest and penalties relating to unrecognized tax benefits.

23. Stock Based Compensation

On June 15, 2018, at the Company's 2018 Annual Meeting of Stockholders, the Company's stockholders approved the 2018 Plan, which replaced and superseded the 2015 Plan, which was an amendment and restatement of the Company's 2006 Omnibus Award Plan to, among other things, reserves 3,175,000 shares of the Company's common stock for grants of awards under the 2018 Plan. As of December 31, 2019, the Company had 2,785,763 shares available for grant under the 2018 Plan (includes 99,378 shares against vested performance-based restricted stock units for which the underlying common stock was issued subsequent to December 31, 2019).

Under the 2018 Plan, the Compensation Committee (the "Committee") may grant awards of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonus awards, performance based compensation awards (including cash bonus awards and market condition based awards) or any combination of the foregoing.

The Committee determines which employees are eligible to receive the equity awards, the number of equity awards to be granted, the exercise price, the vesting period and the exercise period. The vesting period for the equity award issued is determined on the date of the grant and is non-transferable during the life of the equity award. The majority of options expire ten years from the date of grant. The equity awards of the type restricted stock units generally vest proportionally over a period of four years from the date of grant, unless specified otherwise.

The Company applies the provisions of ASC 718, *Compensation - Stock Compensation*, to account for its stock based compensation, using the modified prospective method of transition. Under the provisions of this guidance, the estimated fair value of stock-based awards granted under stock incentive plans is recognized as compensation expense based on straight-line method over the vesting period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

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

	Year ended December 31,		
	2019	2018	2017
Cost of revenues	\$ 5,895	\$ 4,924	\$ 4,600
General and administrative expenses	10,012	10,371	10,363
Selling and marketing expenses	10,163	8,606	8,078
Total	\$ 26,070	\$ 23,901	\$ 23,041

Stock Options

The fair value of each stock option granted to employees is estimated on the date of grant using the Black-Scholes option-pricing model.

The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option valuation model. All stock-based payment awards are amortized on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. The Company accounts for the forfeitures as and when the actual forfeitures occur.

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

	Number of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Life (Years)
Outstanding at December 31, 2018	162,475	\$ 20.21	\$ 5,267	2.24
Granted	—	—	—	—
Exercised	(64,314)	15.33	3,187	—
Forfeited	—	—	—	—
Outstanding at December 31, 2019	98,161	\$ 23.39	\$ 4,522	1.86
Vested and exercisable at December 31, 2019	98,161	\$ 23.39	\$ 4,522	1.86

The unrecognized compensation cost for unvested options as of December 31, 2019 is \$nil. The Company did not grant any options during the years ended December 31, 2019, 2018 and 2017. The aggregate intrinsic value of options exercised during the years ended December 31, 2019, 2018 and 2017 was \$3,187, \$4,446 and \$23,027, respectively.

The following table summarizes the status of the Company's stock options outstanding, vested and exercisable at December 31, 2019:

Range of Exercise Prices	Options Outstanding, Vested and Exercisable	
	Shares	Weighted-Average Exercise Price
\$15.00 to \$21.00	14,893	\$ 18.89
\$21.01 to \$28.00	83,268	\$ 24.20
Total	98,161	\$ 23.39

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

Restricted Stock and Restricted Stock Units

An award of restricted stock is a grant of shares subject to conditions and restrictions set by the Committee. The grant or the vesting of an award of restricted stock may be conditioned upon service to the Company or its affiliates or upon the attainment of performance goals or other factors, as determined in the discretion of the Committee. The Committee may also, in its discretion, provide for the lapse of restrictions imposed upon an award of restricted stock. Holders of an award of restricted stock may have, with respect to the restricted stock granted, all of the rights of a stockholder, including the right to vote and to receive dividends.

The Committee is authorized to award restricted stock units to participants. The Committee establishes the terms, conditions and restrictions applicable to each award of restricted stock units, including the time or times at which restricted stock units will be granted or vested and the number of units to be covered by each award. The terms and conditions of each restricted stock award will be reflected in a restricted stock unit agreement.

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

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, 2018**	103,623	\$ 42.68	953,578	\$ 51.81
Granted	—	—	512,598	64.29
Vested*	(76,239)	40.51	(400,497)	47.43
Forfeited	—	—	(151,386)	58.52
Outstanding at December 31, 2019**	27,384	\$ 48.72	914,293	\$ 59.62

* Includes 10,318 and 9,641 restricted stock units vested during the years ended December 31, 2019 and 2018, respectively, for which the underlying common stock is yet to be issued.

** As of December 31, 2019 and 2018 restricted stock units vested for which the underlying common stock is yet to be issued are 166,071 and 155,753, respectively.

The fair value of restricted stock and restricted stock units is generally the market price of the Company's shares on the date of grant. As of December 31, 2019, unrecognized compensation cost of \$39,886 is expected to be expensed over a weighted average period of 2.56 years. The weighted-average fair value of restricted stock and restricted stock units granted during the years ended December 31, 2019, 2018 and 2017 was \$64.29, \$60.64 and \$48.02, respectively. The total grant date fair value of restricted stock and restricted stock units vested during the years ended December 31, 2019, 2018 and 2017 was \$22,084, \$19,865 and \$19,430, respectively.

Performance Based Stock Awards

Under the 2018 Plan, the Company grants performance-based restricted stock units ("PRsUs") to executive officers and other specified employees. 50% of the PRsUs cliff vest at the end of a three-year period based on an aggregated revenue target for a three year period ("PUs"). The remaining 50% is based on a market condition ("MUs") that is contingent on the Company's meeting the total shareholder return ("TSR") relative to a group of peer companies specified under the program measured over a three-year performance period. The award recipient may earn up to two hundred percent (200%) of the PRsUs granted based on the actual achievement of targets.

EXLSERVICE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)
December 31, 2019
(In thousands, except share and per share amounts)

The fair value of each PU is determined based on the market price of one common share on a day prior to the date of grant, and the associated stock compensation expense is calculated on the basis that performance targets at 100% are probable of being achieved. The stock compensation expense for the PUs is recognized on a straight-line basis over the service period, which is through the end of the third year. Over this period, the number of shares that will be issued are adjusted upward or downward based upon the probability of achievement of the performance targets. The final number of shares issued and the related compensation cost recognized as an expense is based on a comparison of the final performance metrics to the specified targets.

The grant date fair value for the MUs is determined using a Monte Carlo simulation model and the related stock compensation expense is expensed on a straight-line basis over the vesting period. The stock compensation expense related to the MUs is recognized once the requisite performance period is fulfilled regardless of the extent of the market condition achieved.

The Monte Carlo simulation model simulates a range of possible future stock prices and estimates the probabilities of the potential payouts. This model also incorporates the following ranges of assumptions:

- The historical volatilities are used over the most recent three-year period for the components of the peer group.
- The risk-free interest rate is based on the U.S. Treasury rate assumption commensurate with the three-year performance period
- Since the plan stipulates that the awards are based upon the TSR of the Company and the components of the peer group, it is assumed that the dividends get reinvested in the issuing entity on a continuous basis.
- The correlation coefficients are used to model the way in which each entity tends to move in relation to each other are based upon the price data used to calculate the historical volatilities.

The fair value of each MU granted to employees is estimated on the date of grant using the following weighted average assumptions:

	Year ended December 31,		
	2019	2018	2017
Dividend yield	—	—	—
Expected life (years)	2.86	2.86	2.86
Risk free interest rate	2.46%	2.38%	1.40%
Volatility	20.52%	21.79%	23.78%

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

	Revenue Based PRSUs		Market Condition Based PRSUs	
	Number	Weighted Avg Fair Value	Number	Weighted Avg Fair Value
Outstanding at December 31, 2018	100,353	\$ 54.07	100,336	\$ 62.43
Granted	54,062	64.33	54,053	92.13
Adjustment upon final determination of level of performance goal achievement*	11,285	47.73	1,759	54.10
Vested	(54,456)	47.73	(44,922)	54.10
Forfeited	(23,559)	57.69	(23,556)	72.65
Outstanding at December 31, 2019	87,685	\$ 62.54	87,670	\$ 82.10

* Represents adjustment of shares vested in respect of PUs and MUs granted in February 2017 upon achievement of the performance targets for such awards for which the underlying common stock was issued subsequent to December 31, 2019.

As of December 31, 2019, unrecognized compensation cost of \$7,751 is expected to be expensed over a weighted average period of 1.71 years.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

24. Impairment and Restructuring Charges

On December 31, 2019, the Company completed substantially the previously announced wind down of the operations of the Health Integrated business, which is reported within the Healthcare reportable segment. The operating results of this business were significantly below the Company's estimates and actual cash flows were impacted due to loss of customer contracts and cost pressures, and the Company incurred losses from this business. The commencement of the process of winding down the Health Integrated business was previously disclosed by the Company in the Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC") on April 4, 2019 as amended by a Current Report on Form 8-K/A filed with the SEC on July 16, 2019. In connection with the wind down process, the Company recorded pre-tax costs in the consolidated statements of income under "Impairment and restructuring charges".

The following table summarizes the activity related to the restructuring costs incurred and paid for the wind down during the year ended December 31, 2019:

	Contract Termination Costs	Employee- Related Costs	Other Associated Costs	Total
Balance as of January 1, 2019	\$ —	\$ —	\$ —	\$ —
Costs incurred during the year	2,597	1,375	1,072	5,044
Payments during the year	(1,000)	(269)	(701)	(1,970)
Balance as of December 31, 2019	\$ 1,597	\$ 1,106	\$ 371	\$ 3,074

Additionally, the Company recognized impairment of ROU assets and long-lived assets of \$3,627 during the year ended December 31, 2019 in the consolidated statements of income under "Impairment and restructuring charges".

25. Related Party Disclosures

On October 1, 2018, the Company entered into the Investment Agreement with the Purchaser relating to the issuance to the Purchaser of \$150,000 aggregate principal amount of the Notes. In connection with the investment, Vikram S. Pandit, Chairman and CEO of The Orogen Group LLC (an affiliate of the Purchaser), was appointed to Company's Board of Directors.

The Company had outstanding Notes with a principal amount of \$150,000 as of December 31, 2019 and 2018, and interest accrued of \$1,313 each as of December 31, 2019 and 2018, related to the Investment Agreement. Refer to Note 18 to the consolidated financial statements for details.

The Company provides consulting services to PharmaCord, LLC. One of the Company's directors, Nitin Sahney, is the member-manager and chief executive officer of PharmaCord, LLC. The Company recognized revenue of \$nil, \$225 and \$1,748 for the years ended December 31, 2019, 2018 and 2017, respectively, for services provided.

As of December 31, 2019 and 2018, the Company had accounts receivable of \$nil and \$5, respectively, related to these services.

26. Commitments and Contingencies**Capital Commitments**

At December 31, 2019 and 2018, the Company has committed to spend approximately \$6,500 and \$6,300, respectively under agreements to purchase property and equipment. This amount is net of capital advances paid which are recognized in consolidated balance sheets as property and equipment.

Other Commitments

Certain units of the Company's Indian subsidiaries were established as 100% Export-Oriented units or under the Software Technology Parks of India ("STPI") or Special Economic Zone ("SEZ") scheme promulgated by the Government of India. These units are exempt from customs, central excise duties, and levies on imported and indigenous capital goods, stores, and spares. The

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

Company has undertaken to pay custom duties, service taxes, levies, and liquidated damages payable, if any, in respect of imported and indigenous capital goods, stores and spares consumed duty free, in the event that certain terms and conditions are not fulfilled. The Company's management believes, however, that these units have in the past satisfied and will continue to satisfy the required conditions.

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

In March 2017, the Company was named as a defendant in a putative class action lawsuit filed in California, which challenged the classification of independent contractors. The parties participated in a mediation in early 2018. As the result of the mediation, a settlement was reached pursuant to which the Company agreed, without admission of wrongdoing, to pay a total of \$2,400, of which \$1,200 was paid in 2018 and the remainder was paid in 2019.

Contingencies

U.S. and Indian transfer pricing regulations require that any international transaction involving associated enterprises be at an arm's-length price. Accordingly, the Company determines the appropriate pricing for the international transactions among its associated enterprises on the basis of a detailed functional and economic analysis involving benchmarking against transactions among entities that are not under common control. The tax authorities have jurisdiction to review this arrangement and in the event that they determine that the transfer price applied was not appropriate, the Company may incur increased tax liability, including accrued interest and penalties. The Company is currently involved in disputes with the Indian tax authorities over the application of some of its transfer pricing policies for some of its subsidiaries. Further, the Company and a U.S. subsidiary are engaged in tax litigation with the income-tax authorities in India on the issue of permanent establishment. The Company is subject to taxation in the United States and various states and foreign jurisdictions. For the U.S., the Philippines and India, tax year 2016 and subsequent tax years remain open for examination by the tax authorities as of December 31, 2019.

The aggregate amount demanded by Income tax authorities (net of advance payments, if any) from the Company related to its transfer pricing issues for tax years 2003 to 2015 and its permanent establishment issues for tax years 2003 to 2007 as of December 31, 2019 and 2018 is \$16,220 and \$18,177, respectively, of which the Company has made payments and/or provided bank guarantees to the extent \$8,108 and \$8,171, respectively. Amounts paid as deposits in respect of such assessments aggregating to \$6,252 and \$6,273 as of December 31, 2019 and 2018, respectively, are included in "Other assets" and amounts deposited for bank guarantees aggregating to \$1,856 and \$1,899 as of December 31, 2019 and 2018, respectively, are included in "Restricted cash" in the non-current assets section of the Company's consolidated balance sheets.

Based on the facts underlying the Company's position and its experience with these types of assessments, the Company believes that its position will more likely than not be sustained upon final examination by the tax authorities based on its technical merits as of the reporting date and accordingly has not accrued any amount with respect to these matters in its consolidated financial statements. The Company does not expect any impact from these assessments on its future income tax expense. It is possible that the Company might receive similar orders or assessments from tax authorities for subsequent years. Accordingly, even if these disputes are resolved, the Indian tax authorities may still serve additional orders or assessments.

During the quarter ended March 31, 2019, there was a judicial pronouncement in India with respect to defined contribution benefits payments interpreting certain statutory defined contribution obligations of employees and employers. Currently some of the Company's subsidiaries in India are undergoing assessment with the statutory authorities. As of the reporting date, it is unclear whether the interpretation set out in the pronouncement has retrospective application. If applied retrospectively, the interpretation may result in a significant increase in contributions payable by the Company for past periods for certain of its India-based employees. There are numerous interpretative challenges concerning the retrospective application of the judgment. Due to such challenges and a lack of interpretive guidance, and based on legal advice, the Company believes it is currently impracticable to reliably estimate the timing and amount of any payments the Company may be required to make. Accordingly, the Company will re-evaluate the amount of a potential provision, if any, upon further developments.

From time to time, the Company and/or its present officers or directors, on individual basis, may be or have been, named as a defendant in litigation matters, including employment-related claims. The plaintiffs in those cases seek damages, including, where applicable, compensatory damages, punitive damages and attorney's fees. With respect to pending litigation matters as of the reporting date, the Company believes that the damages amounts claimed in such cases are not meaningful indicators of the

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

potential liabilities of the Company, that these matters are without merit, and that the Company intends to vigorously defend each of them.

The outcomes of legal actions are unpredictable and subject to significant uncertainties, and thus it is inherently difficult to determine the likelihood of the Company incurring a material loss or quantification of any such loss. With respect to pending litigation matters as of the reporting date, based on information currently available, including the Company's assessment of the facts underlying each matter and advice of counsel, the amount or range of reasonably possible losses, if any, cannot be reasonably estimated. Based on the Company's assessment, including the availability of insurance recoveries, the Company's management does not believe that currently pending litigation, individually or in aggregate, will have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows.

27. Impact of adoption of accounting guidance on prior year's presentation and disclosures

Effective January 1, 2018, the Company adopted ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post Retirement Benefit Cost*. Accordingly, the Company retrospectively included only the service cost component of the net periodic benefit cost in the same line item or items on the consolidated statements of income as other compensation costs arising from services rendered by the respective employees during the period. The other components of net periodic benefit cost, which included interest cost, expected return on plan assets and amortization of actuarial gains/loss, were reclassified from "Cost of revenues", "General and administrative expenses" and "Selling and marketing expenses" to "Other income, net".

The effect of the adoption of ASU No. 2017-07 (Topic 715) on 2017 financial information is summarized as follows:

	Year ended December 31,		
	2017		
	Previously reported	As revised	Effect of change increase/(decrease)
Location in consolidated statements of income			
Cost of revenues	\$ 495,586	\$ 495,142	\$ (444)
General and administrative expenses	\$ 102,567	\$ 102,515	\$ (52)
Selling and marketing expenses	\$ 53,383	\$ 53,379	\$ (4)
Other income, net	\$ 11,859	\$ 11,359	\$ (500)

	Year ended December 31,		
	2017		
	Cost of revenues previously reported	Cost of revenues as revised	Effect of change increase/(decrease)
Segment information (refer Note 3)			
Insurance	\$ 159,529	\$ 159,433	\$ (96)
Healthcare	\$ 49,483	\$ 49,412	\$ (71)
TT&L	\$ 41,409	\$ 41,337	\$ (72)
F&A	\$ 51,445	\$ 51,362	\$ (83)
All Other	\$ 56,697	\$ 56,638	\$ (59)
Analytics	\$ 137,023	\$ 136,960	\$ (63)
Operating Expenses	\$ 194,499	\$ 194,443	\$ (56)
Foreign exchange gain, interest expense and other income, net	\$ 12,809	\$ 12,309	\$ (500)

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

December 31, 2019

(In thousands, except share and per share amounts)

Effective January 1, 2018, the Company adopted ASU 2016-18, Statements of Cash Flows (Topic 230), Restricted Cash. Accordingly, for 2017, restricted cash and restricted cash equivalents is included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the consolidated statements of cash flows.

The effect of the adoption of ASU No. 2016-18 (Topic 230) on 2017 financial information is summarized as follows:

	Year ended December 31,		
	2017		
	Previously reported	As revised	Effect of change increase/(decrease)
Consolidated statements of cash flows			
Net cash provided by operating activities	\$ 113,140	\$ 113,159	\$ 19
Effect of exchange rate changes on cash, cash equivalents and restricted cash	\$ 3,711	\$ 3,935	\$ 224
Net increase/(decrease) in cash, cash equivalents and restricted cash	\$ (126,360)	\$ (126,117)	\$ 243
Cash, cash equivalents and restricted cash - beginning of year	\$ 213,155	\$ 220,394	\$ 7,239
Cash, cash equivalents and restricted cash - end of year	\$ 86,795	\$ 94,277	\$ 7,482

DESCRIPTION OF SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

As of the date of this Annual Report on Form 10-K, ExlService Holdings, Inc., has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: common stock, par value \$0.001 per share (“**common stock**”). The following description of our capital stock and of certain provisions of our amended and restated certificate of incorporation, as amended (“**certificate of incorporation**”), and fifth amended and restated by-laws (“**by-laws**”) and certain provisions of Delaware law do not purport to be complete and are subject to and qualified in their entirety by reference by the full text of our certificate of incorporation and our by-laws, and the General Corporation Law of the State of Delaware (the “**DGCL**”). References in this section to the “**Company**,” “**we**,” “**us**” and “**our**” refer to ExlService Holdings, Inc. and not to any of its subsidiaries.

Our authorized capital stock consists of 100,000,000 shares of common stock and 15,000,000 of preferred stock. No shares of preferred stock are outstanding.

Common Stock

Voting Rights

The holders of our common stock are entitled to one vote per share on all matters submitted to a vote of stockholders, including the election of directors. Holders of the common stock do not have cumulative voting rights, which means that the holders of a majority of the shares of common stock cast in the election of a director in an uncontested election (as defined in our by-laws) can elect each director then being elected.

Preemptive Rights

Holders of the common stock do not have any preemptive rights under our certificate of incorporation or by-laws.

Dividends; Liquidation Rights

The holders of our common stock are entitled to receive dividends when, as, and if declared by our board out of legally available funds. Upon our liquidation or dissolution, the holders of common stock will be entitled to share ratably in those of our assets that are legally available for distribution to stockholders after payment of liabilities and subject to the prior rights of any holders of preferred stock then outstanding.

Other Rights

No conversion, redemption or sinking fund provisions apply to our common stock, and all of the outstanding shares of common stock are fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subject to the rights of the holders of shares of any series of preferred stock that may be issued in the future.

Preferred Stock

We are authorized, without shareholder approval, to issue up to 15,000,000 shares of preferred stock. Our board of directors is authorized, subject to limitations prescribed by Delaware law and our certificate of incorporation, to determine the terms and conditions of the preferred stock, including whether the shares of preferred stock will be issued in one or more series, the number of shares to be included in each series and the powers, designations, preferences and rights of the shares. Our board of directors also is authorized to designate any qualifications, limitations or restrictions on the shares without any further vote or action by the stockholders. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of our company and may adversely affect the voting and other rights of the holders of our common stock.

Certain Certificate of Incorporation, By-Law and Statutory Provisions

Certain of the provisions of our certificate of incorporation and by-laws and of the DGCL summarized below may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a holder of shares of our common stock might consider in its interest, including an attempt that might result in a receipt of a premium over the market price for such shares.

Directors’ Liability; Indemnification of Directors and Officers

Our certificate of incorporation provides that a director will not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except:

- for any breach of the duty of loyalty;
- for acts or omissions not in good faith or which involve intentional misconduct or knowing violations of law;

- for liability under Section 174 of the DGCL (relating to unlawful dividends, stock repurchases, or stock redemptions); or
- for any transaction from which the director derived any improper personal benefit.

This provision does not limit or eliminate our rights or those of any stockholder to seek non-monetary relief such as an injunction or rescission in the event of a breach of a director's duty of care. The provisions do not alter the liability of directors under federal securities laws. In addition, our certificate of incorporation and by-laws provide that we indemnify each director and the officers, employees, and agents determined by our board of directors to the fullest extent provided by the laws of the State of Delaware.

Special Meetings of Stockholders

Our certificate of incorporation provides that special meetings of stockholders may be called only by the chairman or by a majority of the members of our board. Stockholders are not permitted to call a special meeting of stockholders, to require that the chairman call such a special meeting, or to require that our board request the calling of a special meeting of stockholders.

Stockholder Action; Advance Notice Requirements for Stockholder Proposals and Director Nominations

Our certificate of incorporation provides that stockholders may not take action by written consent, but may only take action at duly called annual or special meetings, unless the action to be effected by written consent and the taking of such action by written consent have expressly been approved in advance by the board. In addition, our by-laws establish advance notice procedures for:

- stockholders to nominate candidates for election as a director; and
- stockholders to propose topics for consideration at stockholders' meetings.

Stockholders must notify our corporate secretary in writing prior to the meeting at which the matters are to be acted upon or directors are to be elected. The notice must contain the information specified in our by-laws. To be timely, the notice must be received at our corporate headquarters not less than 90 days nor more than 120 days prior to the first anniversary of the date of the prior year's annual meeting of stockholders. If the annual meeting is advanced by more than 30 days, or delayed by more than 70 days, from the anniversary of the preceding year's annual meeting, or if no annual meeting was held in the preceding year or for the first annual meeting following this offering, notice by the stockholder, to be timely, must be received not earlier than the 120th day prior to the annual meeting and not later than the later of the 90th day prior to the annual meeting or the 10th day following the day on which we notify stockholders of the date of the annual meeting, either by mail or other public disclosure. In the case of a special meeting of stockholders called to elect directors, the stockholder notice must be received not earlier than 120 days prior to the special meeting and not later than the later of the 90th day prior to the special meeting or 10th day following the day on which we notify stockholders of the date of the special meeting, either by mail or other public disclosure. Notwithstanding the above, in the event that the number of directors to be elected to the board at an annual meeting is increased and we do not make any public announcement naming the nominees for the additional directorships at least 100 days before the first anniversary of the preceding year's annual meeting, a stockholder notice of nomination shall also be considered timely, but only with respect to nominees for the additional directorships, if it is delivered not later than the close of business on the tenth day following the day on which such public announcement is first made. These provisions may preclude some stockholders from bringing matters before the stockholders at an annual or special meeting or from nominating candidates for director at an annual or special meeting.

Election and Removal of Directors

Our certificate of incorporation and by-laws provide for the declassification of our board of directors over a three-year period that began at the 2019 annual meeting of stockholders. Previously, the board of directors was divided into three classes (Class I, Class II and Class III), each elected to hold office for a three-year term, or until their successors were duly elected and qualified. The terms of the classes were staggered, so that only one of the three classes stood for election for a three-year term at each annual meeting of stockholders. At the 2019 annual meeting of stockholders, each of the Class I director nominees elected by our stockholders was elected to hold office for a term of one year, or until their successors are duly elected and qualified in accordance with our by-laws, at the 2020 annual meeting of stockholders, each of the Class I and Class II director nominees elected by our stockholders will be elected to hold office for a term of one year, or until their successors are duly elected and qualified in accordance with our by-laws, and at the 2021 annual meeting of stockholders, each of the Class I, Class II and Class III director nominees elected by our stockholders will be elected to hold office for a term of one year, or until their successors are duly elected and qualified in accordance with our by-laws, and thereafter the classification of the board of directors will terminate in its entirety.

Our stockholders may only remove directors for cause and with the vote of at least 66⅔% of the total voting power of our issued and outstanding capital stock entitled to vote in the election of directors. Our board of directors may elect a director to fill a vacancy, including vacancies created by the expansion of the board of directors. This system of electing and removing directors may discourage a third party from making a tender offer or otherwise attempting to obtain control of us, because it generally makes it more difficult for stockholders to replace a majority of our directors.

Our certificate of incorporation and by-laws do not provide for cumulative voting in the election of directors.

Amendment of the Certificate of Incorporation and By-Laws

Our certificate of incorporation will provide that the affirmative vote of the holders of at least 66 $\frac{2}{3}$ % of the voting power of our issued and outstanding capital stock entitled to vote in the election of directors, is required to amend the following provisions of our certificate of incorporation:

- the provisions relating to our classified board of directors;
- the provisions relating to the number and election of directors, the appointment of directors upon an increase in the number of directors or vacancy, and the provisions relating to the removal of directors;
- the provisions requiring a 66 $\frac{2}{3}$ % stockholder vote for the amendment of certain provisions of our articles of incorporation and for the adoption, amendment or repeal of our by-laws;
- the provisions relating to the restrictions on stockholder actions by written consent; and
- the provisions relating to the calling of meetings of stockholders.

In addition, the board of directors will be permitted to alter our by-laws without obtaining stockholder approval and the affirmative vote of holders of at least 66 $\frac{2}{3}$ % of the voting power of our issued and outstanding capital stock entitled to vote in the election of directors will be required for any amendment to our by-laws by the stockholders.

Anti-Takeover Provisions of Delaware Law

We are subject to the provisions of Section 203 of the DGCL. In general, Section 203 prevents an interested stockholder (defined generally as a person owning 15% or more of the corporation's outstanding capital stock entitled to vote generally in the election of directors) of a Delaware corporation from engaging in a business combination (as defined) for three years following the date that person became an interested stockholder unless various conditions are satisfied.

Stock Exchange Listing

Our common stock is listed on the NASDAQ Global Select Market under the symbol "EXLS".

Subsidiaries of the Registrant

Name of Subsidiary	Jurisdiction
Business Process Solutions (India) Pvt. Ltd.	India
Business Process Outsourcing Ltd.	Mauritius
Business Process Outsourcing, LLC	Delaware
Datasource Consulting, LLC	Colorado
exl Service.com (India) Private Limited	India
ExlService (UK) Limited	United Kingdom
ExlService Australia Pty Ltd.	Australia
ExlService Bulgaria EAD	Bulgaria
ExlService Colombia, S.A.S.	Colombia
ExlService Czech Republic s.r.o.	Czech Republic
ExlService Germany GmbH	Germany
ExlService Mauritius Limited	Mauritius
ExlService Philippines, Inc.	Philippines
ExlService Romania Private Limited S.R.L.	Romania
Exl Service South Africa (PTY) Ltd.	South Africa
ExlService Switzerland GmbH	Switzerland
ExlService Technology Solutions, LLC	Delaware
ExlService.com, LLC	Delaware
Inductis (India) Private Limited	India
Inductis (Singapore) PTE Limited	Singapore
Insight Solutions, LLC	Kansas
IQR Analytics Private Limited	India
IQR Consulting Inc.	California
JCG New Media, LLC	Pennsylvania
Liss Systems Limited	United Kingdom
OPI Limited	Mauritius
Outsource Partners International Limited	United Kingdom
Outsource Partners International, Inc.	Delaware
Outsourcepartners International Pvt. Ltd.	India
Overland Holdings, Inc.	Delaware
Overland Solutions, Inc.	Delaware
RPM Data Solutions, LLC	New Jersey
RPM Direct, LLC	New Jersey
SCIOinspire Holdings Inc.	Cayman Island
SCIO Health Analytics (UK) Limited	United Kingdom
Data Intelligence Limited	United Kingdom
SCIOinspire Consulting Services (India) Private Limited	India
SCIOinspire Corp	Delaware
ExlService Canada Inc.	Canada
EXL Analytics SA (Pty) Limited	South Africa

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-229967 and 333-179098 on Form S-3 and Nos. 333-139211; 333-157076; 333-206022; and 333-226527 on Form S-8 of our reports dated February 27, 2020, relating to the consolidated financial statements of ExlService Holdings, Inc., and the effectiveness of ExlService Holdings, Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of ExlService Holdings, Inc. for the year ended December 31, 2019.

/s/ Deloitte & Touche LLP

New York, New York
February 27, 2020

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement on Form S-3 (No 333-179098 and 333-229967) of ExlService Holdings, Inc; and

(2) Registration Statements on Form S-8 (Nos. 333-139211; 333-157076; 333-206022 and 333-226527) of ExlService Holdings, Inc.

of our report dated February 27, 2018, except Note 27, as to which the date is February 28, 2019, with respect to the consolidated statements of income, comprehensive income, equity and cash flows of ExlService Holdings, Inc. for the year ended December 31, 2017, included in this Annual Report (Form 10-K) of ExlService Holdings, Inc. for the year ended December 31, 2019.

/s/ Ernst & Young LLP

New York, New York
February 27, 2020

SECTION 302 CERTIFICATION

I, Rohit Kapoor, certify that:

1. I have reviewed this annual report of ExlService Holdings, Inc. for the year ended December 31, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2020

/s/ Rohit Kapoor

Rohit Kapoor

Vice-Chairman and Chief Executive Officer

SECTION 302 CERTIFICATION

I, Maurizio Nicolelli, certify that:

1. I have reviewed this annual report of ExlService Holdings, Inc. for the year ended December 31, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2020

/s/ Maurizio Nicolelli

Maurizio Nicolelli

Chief Financial Officer

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of ExlService Holdings, Inc. (the "Company") on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rohit Kapoor, Vice-Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Rohit Kapoor

Rohit Kapoor

Vice-Chairman and Chief Executive Officer

February 27, 2020

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of ExlService Holdings, Inc. (the "Company") on Form 10-K for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Maurizio Nicolelli, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Maurizio Nicolelli

Maurizio Nicolelli

Chief Financial Officer

February 27, 2020