



2018
**ANNUAL
REPORT**

virtusa[®]
Accelerating Business Outcomes

To our valued shareholders:

The fiscal year ended March 31, 2018 was by all accounts a successful year for Virtusa. We delivered strong financial performance in fiscal 2018, highlighted by 19% revenue growth to a record \$1.02 billion, 30% non-GAAP EPS growth, and continued robust cash flow generation. Our strong fiscal 2018 financial results reflect the continued successful execution of our growth strategy, and, in particular, our focus on establishing Virtusa as a leader in digital transformation to enable our clients to transform their operating models and achieve success in an environment of rapid change and disruption. As we look forward to fiscal year 2019 and beyond, we are more confident than ever that Virtusa is uniquely positioned among its peers to lead our clients' digital transformation journeys, setting the stage for us to continue our trend of above-industry growth.

During fiscal year 2018, Virtusa made a commitment to accelerate our focus and investment on strengthening our digital capabilities. Looking back on the year, I am pleased to say that we have made excellent progress against this initiative, executing effectively to capitalize on the rapidly expanding digital market opportunity. Today, digital transformation is an absolute necessity for businesses to remain competitive and achieve their growth objectives. This reality, combined with our distinctive capabilities and deep domain expertise, is driving strong momentum in our Digital practice across all our industry verticals, with clients increasingly seeking our expertise to help them reimagine and redefine their business models for the digital age. By combining our unique platforming expertise, which simplifies, modernizes, and secures our clients' IT infrastructure, with our Digital strategy, Digital consulting, and Digital engineering services, we are enabling our clients to realize the full potential of digital transformation across their entire enterprise. Our proven ability to deliver end-to-end digital transformation with some of the world's largest corporations is now presenting us with greater opportunity than ever before to expand within our existing client base and in the geographies and industries we serve.

To reinforce our growth strategy, we will continue invest in our digital practice in fiscal 2019 including seeking acquisitions that serve to strengthen our capabilities. Virtusa's acquisition of eTouch in March 2018 is an excellent example of this approach. eTouch has served to expand Virtusa's Digital engineering expertise and broaden Virtusa's service offerings in the areas of digital marketing, cloud, analytics, and data security. It has also strengthened our presence in the High-tech Internet vertical, anchored by a leading Silicon Valley-based multinational Internet company, which we are now pleased to count as one of our top-ten clients.

In terms of financial results, we are extremely pleased with this past year's performance. For fiscal year 2018, our total revenue was \$1.02 billion, an increase of 19% compared to \$858.7 million for the fiscal year ended March 31, 2017. Non-GAAP income from operations was \$87.1 million in fiscal year 2018, up 56% year-over-year, representing non-GAAP operating margin of 8.5%, a 200 basis point improvement over fiscal year 2017. Non-GAAP

diluted earnings per share were \$1.63 in fiscal year 2018, an increase of 30% compared to fiscal year 2017. At March 31, 2018, our balance sheet also remained strong with \$244.9 million in cash, cash equivalents, and short-term and long-term investments, and \$299.6 million in debt, net of issuance costs. Cash flow from operations for the fiscal year ended March 31, 2018 was \$62.7 million, up from \$27.6 million in fiscal year 2017.

The driving force behind our success continues to be Virtusa's talented and dedicated team of over 20,000 employees who deliver service excellence for our clients every day. Their ability to consistently deliver results for our clients at the highest level is enabled by our dynamic gamified CICD (or "gCICD") platform, the only ground-up millennial engagement software engineering platform in our industry. As an engineering-first firm, Virtusa has worked diligently to demystify the software development life cycle, extract key productivity metrics, apply very high levels of transparency, and publish best-in-class metrics on team and individual leaderboards. Our unique gCICD platform gathers core software engineering metrics, computes critical data driven insights, applies data science, publishes best-in-class metrics, and celebrates top performers using leaderboards. Our gCICD platform utilizes gamification, a key behavioral attribute of the millennial generation, to create a high-performance meritocracy where best-in-class is set and reset in an open, transparent, fun, and dynamic workplace environment. We believe this method is highly attractive for today's engineers, is contagious, and enables us to attract and retain the best and brightest talent in our industry. The success of our internal platform is not only reflected in our own performance but has also been recognized outside our organization as some of Virtusa's clients have also begun to adopt and embrace our gamified CICD platform within their organizations.

I am very proud of what we accomplished in fiscal year 2018. Looking to fiscal 2019 and beyond, we remain intensely focused on our strategy and committed to delivering above-industry revenue growth, continued annual operating margin expansion, and earnings growth in excess of our revenue growth.

As we continue to carry out our strategy, I would like to thank our clients and shareholders for their ongoing support. I would also like to extend my sincere thanks to our global team members who consistently deliver value to our clients by providing the highest levels of service excellence.

Sincerely,



Kris Canekeratne
Chairman and Chief Executive Officer
July 27, 2018

The discussion set forth in the preceding letter to our shareholders and in the annual report that follows it contains express or implied forward-looking statements concerning our expectations and beliefs, including, without limitation, expectations and assumptions concerning management's forecast of financial performance, the performance of our IT services, acquisition of new clients and growth of business with our existing clients, the ability of our clients to realize benefits from the use of our IT services, existing and new service offerings, recruiting efforts, strategic investments, and management's plans, objectives and strategies. See the discussion of uncertainties, risks and assumptions associated with these statements in Item 1A of our enclosed annual report on Form 10-K, under the heading, "Risk Factors."

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

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

For the fiscal year ended March 31, 2018

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 001-33625

VIRTUSA CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

04-3512883
(I.R.S. Employer
Identification Number)

132 Turnpike Rd
Southborough, Massachusetts 01772
(Address of principal executive office)

(508) 389-7300
(Registrant's telephone number, including area code)

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

Common Stock, \$0.01 par value per share
(Title of each class)

The NASDAQ Stock Market LLC
(Name of exchange on which registered)

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

Note—Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company) Emerging growth company

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

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

The aggregate market value of the registrant's voting and non-voting shares of common stock held by non-affiliates of the registrant on September 29, 2017, based on \$37.78 per share, the last reported sale price on the Nasdaq Global Select Market on that date, was \$795,742,157.

The number of shares outstanding of each of the issuer's class of common stock as of May 22, 2018:

Class	Number of Shares
Common Stock, par value \$0.01 per share	29,681,942

DOCUMENTS INCORPORATED BY REFERENCE

The registrant intends to file a definitive Proxy Statement for its 2018 annual meeting of stockholders pursuant to Regulation 14A within 120 days of the end of the fiscal year ended March 31, 2018. Portions of the registrant's Proxy Statement are incorporated by reference into Part III of this Form 10-K. With the exception of the portions of the Proxy Statement expressly incorporated by reference, such document shall not be deemed filed with this Form 10-K.

VIRTUSA CORPORATION
ANNUAL REPORT ON FORM 10-K
Fiscal Year Ended March 31, 2018
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Part I

This Annual Report on Form 10-K (the “Annual Report”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the “safe harbor” created by those sections. These statements relate to, among other things, our expectations concerning the growth of our business, the ability of our clients to realize benefits from the use of our IT services; projections of financial results, the results of our operations and our financial condition; our competitive landscape; the impact of new accounting pronouncements; future capital requirements and capital expenditures; market risk exposures; customer contracts; our service delivery mix and our plans, strategies and objectives for our company and our future operations. Any statements about our expectations, beliefs, plans, objectives, assumptions, future events or performance or similar subjects are not historical facts and may be forward-looking. Some of the forward-looking statements can be identified by the use of forward-looking terms such as “believes,” “expects,” “may,” “will,” “should,” “seek,” “intends,” “plans,” “estimates,” “projects,” “anticipates,” or other comparable terms. These forward-looking statements involve risk and uncertainties. We cannot guarantee future results, levels of activity, performance or achievements, and you should not place undue reliance on our forward-looking statements. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those set forth in “Item 1A. Risk Factors” and elsewhere in this Annual Report. Our forward- looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or strategic investments. Except as may be required by law, we have no plans to update these forward- looking statements to reflect events or circumstances after the date of this report. We caution readers not to place undue reliance upon any such forward- looking statements, which speak only as of the date made. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q and Form 8-K reports to the Securities and Exchange Commission (the “SEC”).

Item 1. Business.

Overview

Virtusa Corporation (the “Company”, “Virtusa”, “we”, “us” or “our”) is a global provider of digital engineering and information technology (“IT”) outsourcing services that accelerate business outcomes for our clients. We support Forbes Global 2000 clients across large, consumer facing industries like banking, financial services insurance healthcare, communications, and media and entertainment, as these clients seek to improve their business performance through accelerating revenue growth, delivering compelling consumer experiences, improving operational efficiencies, and lowering overall IT costs. We provide services across the entire spectrum of the IT services lifecycle, from strategy and consulting, to technology and user experience (“UX”) design, development of IT applications, systems integration, testing and business assurance, and maintenance and support services, including infrastructure and managed services. We help our clients solve critical business problems by leveraging a combination of our distinctive consulting approach, unique platforming methodology, and deep domain and technology expertise.

Our services enable our clients to accelerate business outcomes by consolidating, rationalizing and modernizing their core customer-facing processes into one or more core systems. We deliver cost-effective solutions through a global delivery model, applying advanced methods such as Agile, an industry standard technique designed to accelerate application development. We also use our consulting methodology, which we refer to as Accelerated Solution Design (“ASD”), which is a collaborative decision-making and design process performed with the client to ensure our solutions meet the client’s specifications and requirements. Our industry leading business transformational solutions combine deep domain expertise with our strengths in software engineering and business consulting to support our clients’ business imperative initiatives across business growth and IT operations.

Headquartered in Massachusetts, we have offices in the United States, Canada, the United Kingdom, the Netherlands, Germany, Switzerland, Sweden, Austria, the United Arab Emirates, Hong Kong, Japan,

Australia and New Zealand, with global delivery centers in India, Sri Lanka, Hungary, Singapore and Malaysia, as well as multiple near shore delivery centers in the United States.

We support the chief executive officers (“CXOs”) at our client organizations, including the chief information officers (“CIOs”), chief technology officers (“CTOs”), chief operating officers (“COOs”), and chief digital/ marketing officers (“CDOs/ CMOs”) in solving their most critical issues, including reducing total cost of ownership, accelerating time-to-market, increasing productivity, improving innovation velocity, expanding into adjacent markets and/or new revenue segments, and enhancing the customer experience delivered by their organizations. Virtusa’s newly formed Digital Business Strategy Group (“DBSG”) helps clients reimagine their business and develop strategies to digitally transform their business, and retain and strengthen their competitive advantage in the markets they serve. Our digital engineering services (“DES”) support our clients’ business growth imperative by delivering targeted and differentiated solutions that help our clients expand their addressable markets, as well as develop go-to-market strategies supporting new revenue streams. To improve IT efficiencies and reduce the cost of IT operations, we use our operational excellence services (“OES”) to help our clients consolidate applications into platforms, rationalize IT infrastructure, and deliver transformational, industry-focused solutions, thereby enabling our clients to deliver modern, efficient and agile enterprise application platforms. Our deep expertise in core technology services allows us to help our clients to lower total cost of ownership of their overall IT investments. We also combine industry specialization with our core services to deliver high-impact solutions in critical business functions that help our clients transform their business performance and gain competitive advantage in the markets in which they operate.

We are on the cusp of the fourth industrial revolution (“4IR”), driven by the convergence of technology innovation, changing consumer expectations, supply chain expansion, and emergence of disruptive start-ups, that is fundamentally changing the way businesses operate. We operate in markets and industries where the combination of a growing millennial population and rapid advances in key technologies, like mobility, big data analytics, social media and cloud computing, are providing disruptive opportunities for progressive business leaders to break down barriers and expand market-share. We enable our clients to leverage technology innovations to provide the distinctive millennial customer experiences demanded by digital consumers who are increasingly looking for services that are available 24×7 without interruption, location aware and highly customized to their social likes and dislikes. Our DBSG services help our clients understand business threats and opportunities in their industries and develop strategies to mitigate these threats and capitalize on the emerging opportunities, while preparing the business to digitally transform and position itself better in the emerging digital business environment. As part of our DES solutions, we provide end-to-end consulting, user experience design, technology selection, and implementation and support services, which allow our clients to understand emerging consumer demand in their markets of operation and develop, and execute to, a roadmap to transform their business and enhance their competitive differentiators. Commoditization of IT services and the emergence of as-a-service models are putting tremendous pressure on our clients’ IT organizations to improve the way they manage IT operations and lower the overall cost of IT. Our OES solutions enable our clients to improve operational and IT efficiencies through the innovative use of automation, effort compression and IT simplification.

New advances in areas like internet of things (“IoT”), artificial intelligence (“AI”), machine learning (“ML”), and robotics process automation (“RPA”) are now pushing the boundaries of how technology can disrupt traditional business models and deliver significant value in several areas, including delivering new products and services, enhancing consumer experience, and improving operational efficiencies of the business. We have invested in developing deep capabilities in these new areas, fostering a strong partner ecosystem and building a rich platform for nurturing innovation and rapidly constructing prototypes that use IoT, AI and/or RPA to solve specific business problems for our clients. We have created innovation centers focused on certain technologies like IoT, AI, and ML, which offer a robust ecosystem for clients to participate and innovate in creating new solutions to their business challenges. Through these innovation

centers, we have been able to deliver award winning solutions to some of our marquee clients in healthcare, communications and insurance sectors.

Virtusa's xLabs, an important initiative we began two years ago, is our focus on tapping into the disruptive startup ecosystem and the innovative, cutting-edge technologies driving these businesses. Our xLabs, which began as a banking and financial services—focused FinTech Lab, has expanded its scope to focus on delivering digital innovation for our clients across banking and financial services, insurance, healthcare, media and telecommunications industries. We have built our xLabs solution as a cloud-based platform that offers our clients discrete technology solutions that enable them to accelerate time to market, and provides them with an experimentation sandbox that they can use to test and evaluate new products and services targeted at millennial consumers. Today, our xLabs team has built and delivered innovative solutions using open API platforms, micro services frameworks, and block-chain. We expect to continue this trend of investing in emerging technologies and solutions to accelerate digital business outcomes for our clients.

We deliver our services using our enhanced global delivery model which leverages a highly efficient onsite-to-offshore service delivery mix and proprietary tools and processes to manage and accelerate delivery, foster innovation, and promote continual improvement of outcomes delivered to our clients. Our global service delivery teams work seamlessly at our client locations and at our global delivery centers to provide value-added services rapidly and cost-effectively. Our teams do this by using our enhanced global delivery model, which we manage to a targeted 25% to 75% onsite-to-offshore service delivery mix, although such delivery mix may be impacted by several factors, including our new and existing client delivery requirements.

We apply our innovative platforming approach across all of our services. Through our platforming approach, we help our clients combine common business processes and rules, technology frameworks and data into reusable application platforms that can be leveraged across the enterprise to build, maintain and enhance existing and future applications. Our platforming approach enables our clients to continually improve their software platforms and applications in response to changing business needs and evolving technologies, while also allowing them to improve business agility, realize long-term and ongoing cost savings and improve their ROI. Our platforming methodology also reduces the effort and cost required to develop and maintain IT applications by streamlining and consolidating our clients' applications on an ongoing basis. We believe that our solutions provide our clients with the consultative and high-value services associated with large consulting and systems integration firms, the cost-effectiveness associated with offshore IT outsourcing firms, and the ongoing benefits of our innovative platforming approach.

To strengthen our digital engineering capabilities, and establish a solid base in Silicon Valley, on March 12, 2018, we entered into an equity purchase agreement by and among the Company, eTouch Systems Corp. ("eTouch US") and each of the equityholders of eTouch US to acquire all of the outstanding shares of eTouch US, and certain of the Company's Indian subsidiaries entered into a share purchase agreement by and among those Company subsidiaries, eTouch Systems (India) Pvt. Ltd ("eTouch India," together with eTouch US, "eTouch") and the equityholders of eTouch India to acquire all of the outstanding shares of eTouch India.

Under the terms of the equity purchase agreement and the share purchase agreement, on March 12, 2018, we acquired all of the outstanding shares of eTouch US and eTouch India for approximately \$140.0 million in cash, subject to certain adjustments, with up to an additional \$15.0 million set aside for retention bonuses to be paid to eTouch management and key employees, in equal installments on the first and second anniversary of the transaction. The purchase price will be paid in three tranches with \$80.0 million paid at closing, \$42.5 million on the 12-month anniversary of the close of the transaction, and \$17.5 million on the 18-month anniversary of the close of the transaction, subject in each case to certain adjustments.

On March 3, 2016, to create a unique, fully integrated provider of comprehensive solutions and services across the banking and financial services industry, expand our addressable market, and enable us to pursue larger consulting and outsourcing contracts, our Indian subsidiary acquired approximately 51.7% of the fully diluted shares of Polaris Consulting & Services Limited (“Polaris”) for approximately \$168.3 million in cash (the “Polaris Transaction”) pursuant to a share purchase agreement dated as of November 5, 2015, by and among our Indian subsidiary, Polaris and the promoter sellers named therein. On April 6, 2016, in connection with the Polaris Transaction, we completed an unconditional mandatory open offer (the “Mandatory Tender Offer”) to purchase an additional 26% of the fully diluted outstanding shares of Polaris from Polaris’ public shareholders for an aggregate purchase price of approximately \$89.1 million (Indian rupees 5,935 million). Upon the closing of the Mandatory Tender Offer, our ownership interest in Polaris increased from approximately 51.7% to 77.7% of Polaris’ fully diluted shares outstanding, and from approximately 52.9% to 78.8% of Polaris’ basic shares outstanding. In order to comply with the applicable Indian rules on takeovers, during the three months ended December 31, 2016, we sold 3.7% of our shares of Polaris common stock through a public offering for approximately \$7.6 million in proceeds, net of \$0.2 million in brokerage fees and taxes, which reduced our ownership interest in Polaris from 78.6% to 74.9% of Polaris’ basic shares of common stock outstanding.

In connection with our acquisition of Polaris, on October 26, 2017, we announced our intention to commence through our Indian subsidiary, a process that could lead to the delisting of our Indian subsidiary, Polaris, from all stock exchanges on which Polaris’ common shares are listed. On February 12, 2018, we consummated the Polaris delisting offer to all public shareholders of Polaris in accordance with the provisions of the SEBI Delisting Regulations, which resulted in an accepted exit price of INR 480 per share (“Exit Price”), for an aggregate consideration of approximately \$145.0 million, exclusive of transaction and closing costs, resulting in Virtusa India increasing its ownership interest in Polaris from approximately 74% to approximately 93% of the share capital of Polaris. Upon receipt of final approvals from the stock exchanges on which Polaris is traded, the common shares of Polaris will be delisted from all public exchanges on which the Polaris shares are traded. For a period of one year following the date of the delisting from all stock exchanges on which Polaris common shares are listed, Virtusa India will permit, in compliance with SEBI Delisting Regulations, the public shareholders of Polaris to tender their shares for sale to Virtusa India at the Exit Price. If all the remaining shares of Polaris are tendered at the Exit Price, we would pay an additional consideration of approximately \$56.0 million.

In connection with, and as part of the Polaris acquisition, on November 5, 2015, we entered into an amendment with Citigroup Technology, Inc. (“Citi”) and Polaris, which became effective upon the closing of the Polaris Transaction, pursuant to which, (i) Citi agreed to appoint the Company and Polaris as a preferred vendor for Global Technology Resource Strategy (“GTRS”) for the provision of IT services to Citi on an enterprise wide basis (“GTRS Preferred Vendor”), (ii) the Company agreed to certain productivity savings and associated reduced spend commitments for a period of two years, which, if not achieved, would require the Company to provide certain minimum discounts to Citi (which is now satisfied), (iii) the parties amended Polaris’ master services agreement with Citi such that the Company would also be deemed a contracting party and the Company would assume, and agree to perform, or cause Polaris to perform, all applicable obligations under the master services agreement, as amended by the amendment (the “Citi/Virtusa MSA”), and (iv) Virtusa agreed to terminate Virtusa’s existing master services agreement with Citi, and have the Citi/Virtusa MSA be the sole surviving agreement.

In support of the delisting transaction and the eTouch acquisition, on February 6, 2018, we entered into a \$450.0 million credit agreement (“Credit Agreement”) with a syndicated bank group jointly lead by JP Morgan Chase Bank, N.A. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, which amends and restates our prior \$300.0 million credit agreement (which we had originally entered into on February 25, 2016 (“Prior Credit Agreement”) to fund the Polaris acquisition and Mandatory Tender Offer) and provides for a \$200.0 million revolving credit facility, a \$180.0 million term loan facility, and a \$70.0 million delayed-draw term loan. We drew down \$180.0 million under the term loan of the Credit Agreement and

\$55.0 million under the revolving credit facility under the Credit Agreement to repay in full the amount outstanding under the Prior Credit Agreement and fund the Polaris delisting transaction. On March 12, 2018, we drew down the \$70 million delayed draw to fund the eTouch acquisition. Interest under this new credit facility accrues at a rate per annum of LIBOR plus 3.0%, subject to step-downs based on the Company's ratio of debt to EBITDA. We intend to enter into an interest rate swap agreement to minimize interest rate exposure. The Credit Agreement includes maximum debt to EBITDA and minimum fixed charge coverage covenants. The term of the Credit Agreement is five years, ending February 6, 2023 (see Note 11 to the Consolidated Financial Statements for further information). At March 31, 2018, the outstanding amount under the Credit Agreement was \$305.0 million.

On May 3, 2017, we entered into an investment agreement with The Orogen Group ("Orogen") pursuant to which Orogen purchased 108,000 shares of the Company's newly issued Series A Convertible Preferred Stock, initially convertible into 3,000,000 shares of common stock, for an aggregate purchase price of \$108 million with an initial conversion price of \$36.00 (the "Orogen Preferred Stock Financing"). In connection with the investment, Vikram S. Pandit, the former CEO of Citigroup, was appointed to Virtusa's Board of Directors. Orogen is a new operating company that was created by Vikram Pandit and Atairos Group, Inc., an independent private company focused on supporting growth-oriented businesses, to leverage the opportunities created by the evolution of the financial services landscape and to identify and invest in financial services companies and related businesses with proven business models.

Under the terms of the investment, the Series A Convertible Preferred Stock has a 3.875% dividend per annum, payable quarterly in additional shares of common stock and/or cash at our option. If any shares of Series A Convertible Preferred Stock have not been converted into common stock prior to May 3, 2024, the Company will be required to repurchase such shares at a repurchase price equal to the liquidation preference of the repurchased shares plus the amount of accumulated and unpaid dividends thereon. If we fail to effect such repurchase, the dividend rate on the Series A Convertible Preferred Stock will increase by 1% per annum and an additional 1% per annum on each anniversary of May 3, 2024 during the period in which such failure to effect the repurchase is continuing, except that the dividend rate will not increase to more than 6.875% per annum.

In connection with the investment, we repaid \$81 million of our outstanding term loan under our Prior Credit Agreement, and our board of directors approved the repurchase of approximately \$30 million of our common stock.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Acts (the "Tax Act"). The Tax Act contains several key tax provisions that will impact the Company, including the reduction of the corporate income tax rate to 21% effective January 1, 2018. The Tax Act also includes a variety of other changes, such as a one-time repatriation tax on accumulated foreign earnings, a limitation on the tax deductibility of interest expense, acceleration of business asset expensing, and reduction in the amount of executive pay that could qualify as a tax deduction, among others. (See Note 14 to the Consolidated Financial Statements for further information)

We provide our IT services primarily to enterprises engaged in the following industries: communications and technology ("C&T"); banking, financial services and insurance ("BFSI"); and media and information ("M&I"). Our current clients include leading global enterprises such as Citi, JPMorgan Chase Bank, N.A. ("JPMC") and British Telecommunications plc ("BT"), and leading enterprise software developers. We have a high level of repeat business among our clients. For instance, during the fiscal year ended March 31, 2018, 96% of our revenue came from clients to whom we had been providing services for at least one year. Our top ten clients accounted for approximately 50%, 45%, 47% of our total revenue in the fiscal years ended March 31, 2018, 2017 and 2016 respectively. Our largest client for the fiscal year ended March 31, 2018, Citi, accounted for 19% of our total revenue with no other client accounting for 10% or more of our revenues. For the fiscal years ended March 31, 2017 and 2016, Citi accounted for 17% and 3% respectively.

Our approach to global IT services

Our expertise in supporting a broad range of IT services, ability to engage through a global delivery model that optimizes outcomes and use of proprietary methodologies like platforming to improve IT efficiencies, allow us to be a trusted partner to our clients for their end-to-end IT services requirements.

Broad range of IT services. We provide a broad range of IT services, either individually or as part of an end-to-end solution, from business and IT consulting, customer experience and UX design, technology implementation, and platform assurance to application & infrastructure management. We have significant domain expertise in large consumer facing industries, such as C&T, BFSI and M&I. Our recent acquisition of Polaris has significantly enhanced our domain strengths in BFSI, allowing us to deliver distinctive solutions across the complete spectrum of end-to-end banking and financial services requirements. Over the past several years, our investments in building deep capabilities in industry focused solutions has helped us develop very strong domain-specific capabilities across insurance, healthcare and telecommunications industries as well. We have designed our portfolio of IT services and solutions to enable our clients to improve business performance, use IT assets more efficiently and optimize IT costs.

Enhanced global delivery model. We provide our services through our enhanced global delivery model that leverages a highly-efficient onsite-to-offshore service delivery mix and proprietary tools and processes to manage and accelerate delivery, foster innovation and promote continual improvement of outcomes delivered to our clients.

Platforming approach. We apply our innovative platforming approach across our IT consulting, technology implementation and application outsourcing services to rationalize IT application portfolios and reduce costs, increase productivity and improve the efficiency and effectiveness of our clients' IT application environments.

Our services

Business and IT consulting services. We provide business and IT consulting services to assist our clients in more effectively managing their continually-changing business and IT environments, and aligning their IT investments to better support current and future business requirements. Our business consulting services allow clients to mitigate risks and execute successful IT programs by enabling stakeholder alignment, formulating the business case and ROI, and defining agreed-upon end outcomes using innovative techniques, such as persona development, DILO (Day-in-the-life-of) journeys and rapid prototyping for each project. We also assist clients in assessing new approaches to improve revenue opportunities within existing markets, developing new products/solutions for existing and new markets and improving retention and share-of-wallet through a better understanding of customer behavior and engagement. We have enhanced our business consulting services portfolio with solutions specific to digital enabling our clients' businesses, allowing them to effectively assess and deploy the right kinds of digital technologies and drive the appropriate outcomes from their digital initiatives.

The goal of our IT consulting group is to help our clients continually improve the performance of their IT application environments by adopting and evolving towards re-useable software platforms. We help clients analyze business and/or technology problems and identify and design platform-based solutions. We also assist our clients in planning and executing their IT initiatives and transition plans.

Our consulting services allow our clients to critically look at business processes, IT environments and their customer facing application systems, and execute targeted programs that improve performance of business critical systems, processes and services:

Business Transformation Services	Customer Experience Transformation Services	IT Transformation Services
Strategic Research services		
<ul style="list-style-type: none"> • Advisory/Target Operating Model • Business Process Re-engineering/Business management(BPM) • Transformational Solution Consulting • Business/Technology Alignment Analysis 	<ul style="list-style-type: none"> • Omni-channel Digital Strategy • Experience Design ASD • Employee Engagement 	<ul style="list-style-type: none"> • Application Portfolio Rationalization • SDLC Transformation • BA Competency Transformation
Strategic Roadmap, Conceptual Design, Solution Selection & Solution Design ASD		

During our consulting engagements, we often leverage proprietary frameworks and tools to differentiate our services from our competitors and to accelerate delivery. Examples of our unique frameworks and tools include our strategic enterprise information roadmap framework, which is a structured service offering for recommending the right IT platform, solution architecture, transition strategy and approach to meet current and future business requirements, our business process visualization tools, which enable us to analyze, design and optimize enterprise business processes, and ASD. We have also invested in our consulting services to help our clients effectively manage large, complex IT programs, and evaluate and develop strategies to millennial-enable their enterprises for the digital consumer, and support the development of new, differentiated customer experience improvement programs.

We believe that our consulting services are further differentiated by our ability to leverage our global delivery model across our engagements. Our onsite teams work directly with our clients to understand and analyze the current-state problems and to design conceptual solutions. Our offshore teams work seamlessly with our onsite teams to design and expand the conceptual solution, research alternatives, perform detailed analyses, develop prototypes and proofs- of-concept and produce detailed reports. We believe that this approach reduces cost, allows us to explore more alternatives in the same amount of time and improves the quality of our deliverables.

Technology implementation services. Our technology implementation services involve building, testing, deploying, maintaining and supporting IT applications, and consolidating and rationalizing our clients' existing IT applications and environments into platforms. Leveraging our deep skills in software engineering and our expertise in the innovative use of technology to solve business problems, we help our clients' CIOs to make the right decisions on technology platform selection, support the implementation of core application systems and help solve critical business problems, while ensuring that the CIO's IT asset estate remains optimized, cost-effective and supports current and future business requirements.

Our technology implementation services include the following development, legacy asset management, information management and testing services:

Application Development Services	Legacy Asset Management Services	Information Management Services	Testing and Application Assurance Services
<ul style="list-style-type: none"> • Application Development • Software Product Engineering • CRM Implementations • SAP Implementations • Content Management Services • Enterprise Mobility Services • Cloud Computing • Social Media Solutions 	<ul style="list-style-type: none"> • Systems Consolidation and Rationalization • Technology Migration and Porting • Web-enablement of Legacy Applications 	<ul style="list-style-type: none"> • Data Management Services • Business Intelligence, Reporting and Decision Support • Master Data Management • Data Integration • Big Data Analytics 	<ul style="list-style-type: none"> • Software Quality Assurance • Testing Frameworks • Test Automation • Performance Testing • Mobility Testing • Continuous Testing Services • Test Data Management • Managed testing services

Our technology implementation services span a variety of capabilities, including custom application development, testing, maintenance and support services, and packaged software implementation services. We have extensive and deep partnerships with leading technology platform vendors. We have incorporated rapid, iterative development techniques into our approach, extensively employing prototyping, solution demonstration labs and other collaboration tools that enable us to work closely with our clients to understand and deliver to their most challenging business requirements. Leveraging our business consulting services with advanced techniques like our ASD workshops, we are able to develop and deploy applications quickly, often within solution delivery cycles of less than three months.

Application outsourcing services. We provide a broad set of IT application outsourcing services that enable us to provide comprehensive support for our clients’ needs to manage and maintain their software applications and platforms cost-effectively. We endeavor to continually improve the applications under our management and to evolve our clients’ IT applications into platforms. We combine a deep understanding of software engineering with an innovation mindset to provide targeted outsourcing services that not only help reduce the cost of existing IT operations, but also improve the quality of applications over time.

Our outsourcing services leverage innovative techniques and methodologies to significantly improve IT efficiencies by reducing cycle time and compressing the work required to achieve specific outcomes. We help our clients reduce the cost of business operations by preemptively identifying and resolving issues in application support and maintenance. We make extensive use of Agile development methodology to reduce and minimize business disruptions due to IT issues and support the CIO organization in improving the business experience by leveraging RPA to drive automation and process efficiencies.

Our application outsourcing services include the following application and platform management, infrastructure management and IT efficiency improvement services:

Application & Platform Management Services	Infrastructure Management Services	IT Efficiency Improvement Services
<ul style="list-style-type: none"> • Application Maintenance and Support • Maintenance and Enhancement of Applications • Cloud-environment Management & Support 	<ul style="list-style-type: none"> • Managed Infrastructure Services • Remote Application Monitoring & support 	<ul style="list-style-type: none"> • Code Quality Assurance <ul style="list-style-type: none"> • Gamified development environments • Agile DevOps • Gamified Continuous Integration/ Continuous Deployment

We believe that our application outsourcing services are differentiated because they are based on the principle of migrating installed applications to flexible platforms that can sustain further growth and business change. We do this by:

- developing a roadmap for the evolution of applications into platforms
- establishing an ongoing planning and governance process for managing change
- analyzing applications for common patterns and services
- identifying application components that can be extended or enhanced as core components
- integrating new functions, features and technologies into the target architecture

We continue to strengthen our ability to deliver infrastructure management services (“IMS”) and IT support related services to our clients, helping them manage their IT operations effectively through an offshore outsourced model. We have expanded our investments into the capabilities that we obtained through our acquisition of Apparatus, Inc. in April 2015 and are now able to deliver seamless infrastructure management services to our clients around the clock, but also to perform these services in an automated, cost-effective manner. Further, we have invested in building out strong capabilities in improving efficiencies in the developer environment. Our solutions around gamified Continuous Integration/ Continuous Deployment (“gamified CICD”) and Agile DevOps have helped us create a highly agile development environment that allows our clients to accelerate development cycles, improve time-to-market, and become more responsive to changes in markets in which they operate.

Global delivery model. We have developed an enhanced global delivery model that allows us to provide innovative IT services to our clients in a flexible, cost-effective and timely manner by leveraging an efficient onsite-to-offshore service delivery mix and our proprietary global innovation process (“GIP”), and also enables us to manage and accelerate delivery, foster innovation and promote continual improvement. We manage to a targeted 25% to 75% onsite-to-offshore service delivery mix, which allows us to provide value-added services rapidly and cost-effectively. During the past four fiscal years, we performed at least 74% of our total annual billable hours at our offshore global delivery centers. However, for the fiscal year ending March 31, 2019, we anticipate the onsite ratio to slightly increase due to new client engagements and existing work on larger, more complex programs requiring a larger onsite presence. Our delivery mix may also fluctuate from time to time due to several other factors, including new and existing client delivery requirements, as well as the impact of any acquisitions. Using our global delivery model, we generally maintain onsite teams at our clients’ locations and offshore teams at one or more of our global delivery centers. Our onsite teams are generally composed of program and project managers, industry experts and senior business and technical consultants. Our offshore teams are generally composed of project managers, technical architects, business analysts and technical consultants. These teams are typically linked together through common processes and collaboration tools and a communications infrastructure that features secure, redundant paths enabling seamless global collaboration. Our global delivery model enables us to provide around the clock, world class execution capabilities that span multiple time zones.

All of our major delivery centers, located in Hyderabad, Chennai and Bangalore in India and Colombo in Sri Lanka have been reassessed at CMMI Level 5 maturity. During our fiscal year ended March 31, 2018, we launched a Global CMMI Program to re-assess all of our delivery centers in Hyderabad, Chennai and Bangalore, India, and Colombo, Sri Lanka against CMMI-DEV v1.3 ML5 & CMMI-SVC v1.3 ML3. This would be the first of the initiatives to cover multi-locations and multi-models (CMMI-DEV & CMMI-SVC). We expect the re-assessment to be completed by within our 2019 fiscal year. CMMI is a process improvement model used to improve a company’s ability to manage project deliveries to ensure predictable results. CMMI’s process levels are regarded as the standard in the industry for evolutionary paths in software and systems development and management.

Our enhanced global delivery model is built around our proprietary GIP, which is a software lifecycle methodology that combines our experience building platform-based solutions for global clients with leading industry standards such as rational unified process, eXtreme programming, capability maturity model and product line engineering. By leveraging GIP templates, tools and artifacts across diverse disciplines such as requirements management, architecture, design, construction, testing, application outsourcing and production support, each team member is able to leverage software engineering and platforming best practices and extend these benefits to clients.

During the initial phase of an engagement, we work with the client to define the specific approach and tools that will be used for the engagement. This process tailoring takes into consideration the client's business objectives, technology environment and currently-established development approach. We believe our innovative approach to adapting proven techniques into a custom process has been an important differentiator that allows us to deliver substantially greater value to our clients in a cost effective and timely manner.

The backbone of GIP is our global delivery operations infrastructure. This infrastructure combines enabling tools and specialized teams that assist our project teams with important enabling services such as workforce planning, knowledge management, integrated process and program management and operational reporting and analysis.

Two important aspects of our global delivery model are innovation and continuous improvement. A dedicated process group provides three important functions: they continually monitor, test and incorporate new approaches, techniques, tools and frameworks into GIP; they advise project teams, particularly during the process-tailoring phase; and they monitor and audit projects to ensure compliance. New and innovative ideas and approaches are broadly shared throughout the organization, selectively incorporated into GIP and deployed through training. Clients also contribute to innovation and improvement as their ideas and experiences are incorporated into our body of knowledge. We also seek regular informal and formal client feedback. Our global leadership and executive team regularly interact with client leadership and each client is typically given a formal feedback survey on a quarterly basis. Client feedback is qualitatively and quantitatively analyzed and forms an important component of our teams' performance assessments and our continual improvement plans.

Platforming approach. We apply our innovative platforming approach across our business and IT consulting, technology implementation and application outsourcing services to rationalize IT application portfolios and reduce costs, increase productivity and improve the efficiency and effectiveness of our clients' IT application environments. As part of our platforming approach, we assess our clients' application environments to identify common elements, such as business processes and rules, technology frameworks and data. We incorporate those common elements into one or more application platforms that can be leveraged across the enterprise to build, enhance and maintain existing and future applications in a leaner environment. Our platforming approach enables our clients to continually improve their software platforms and applications in response to changing business needs and evolving technologies while also realizing long-term and ongoing cost savings.

Our platforming approach is embodied in a set of proprietary processes, tools and frameworks that address the fundamental challenges confronting IT executives. These challenges include managing the rising costs of technology ownership, while simultaneously supporting business demands to foster innovation, accelerate time-to-market, improve service and enhance productivity. Our platforming approach draws from analogs in industries that standardize on platforms composed of common components and assemblies used across multiple product lines. Similarly, we work with our clients to evolve their diverse software assets into unified, rationalized software platforms. Our platforming approach leads to simplified and standardized software components and assemblies that work together harmoniously and readily adapt to support new business applications. For example, a software platform for trading, once developed within an investment bank, can be the foundation for the bank's diverse trading

applications in equities, bonds and currencies. Our platforming approach stands in contrast to traditional enterprise application development projects, where different applications remain separate and isolated from each other, replicating business logic, technology frameworks and enterprise data.

At the center of our platforming approach is a five-level maturity framework that allows us to adapt our service offerings to meet our clients' unique needs. Level 1 maturity in our platforming approach represents traditional applications where every line of code is embedded and unique to the application and every application is monolithic. Level 2 applications are less monolithic and more flexible and demonstrate characteristics such as configurability and customizability. Level 3 applications are advanced applications where the common code components and software assets are leveraged across multiple application families and product lines. Level 4 applications are framework-driven where the core business logic is reused with appropriate custom logic built around it. At the highest level of maturity are Level 5 applications, where platforms are greatly leveraged to simplify and accelerate application development and maintenance. At lower levels of maturity, few assets are created and reused. Consequently, agility, total cost of ownership and ability to quickly meet business needs are suboptimal. As organizations mature along this continuum, from Level 1 to Level 5, substantial intellectual property is created and embodied in software platforms that enable steady gains in agility, reduce overall cost of ownership and accelerate time-to-market for business applications and services.

Our platforming approach improves software quality and IT productivity. Software assets within platforms are reused across applications, their robustness and quality improve with time and our clients are able to develop software with fewer defects. A library of ready-made building blocks significantly enhances productivity and reduces software development risks compared to traditional methods. This establishes a cycle of continual improvement in that the more an enterprise embraces platform-based solutions, the better the quality of its applications will be, and the less the effort required to build, enhance and maintain them.

Our IT solutions

Our go-to-market strategy is to support our clients in accelerating business growth, while reducing the cost of IT operations. Our DTi solutions help our clients to support business growth initiatives, while our OE solutions allow our clients to improve IT efficiencies and reduce costs. Underlying these two broad solution areas is a set of transformational solution capabilities that support and augment our ability to add value through DTi and OE capabilities.

Digital Engineering Services-based solutions. Our DES solutions are designed to enable our clients to accelerate business growth by capitalizing on market adjacencies, developing new, complementary market segments, creating compelling digital storefronts, and delivering engaging digital consumer experiences. Our DES solutions harness innovative technology advances in mobility, social media, cloud computing and big data analytics to help our clients modernize their IT application environments and enable their businesses to capitalize on the new wave of millennial consumer demand and expectations.

We have made significant investments in building out and expanding our digital capabilities including investments in UX and digital consulting. Over the fiscal year ended March 31, 2018, we not only developed a comprehensive framework to assess our clients' digital maturity, but also invested in a substantive market survey that helps us benchmark our clients' survey results against the best in their industry. We use this to help our clients develop a roadmap to digitally transform their businesses, leveraging our learning from what the best organizations in the industry are doing.

We offer the following solutions which enable our clients to address or serve the growing needs of the millennial generation:

Strategy & Innovation	Design & Engineering	Optimization & Automation
<ul style="list-style-type: none"> • Innovation Consulting • Mobile Strategy • Omni-channel Strategy • Content Strategy • Data Management Strategy • Cloud Strategy • Cyber Security 	<ul style="list-style-type: none"> • User experience Design • Mobile & Wearable Apps • Responsive Web Development • Portal Simplification • Digital Marketing & Commerce • Employee Engagement • Enterprise Data Hubs 	<ul style="list-style-type: none"> • Internet of Things • Artificial Intelligence & Cognitive Computing • Big Data & Analytics • Enterprise Mobile Management • Cloud Deployment & Migration • Robotics Process Automation

We have invested in creating digital technology labs and innovation hubs within our global delivery centers to foster the development of emerging technology solutions and enable our clients to become digital enterprises. Our acquisition of eTouch Systems Corp., in March 2018, has helped strengthen our digital engineering capabilities, and establish a solid base in Silicon Valley, the hub of high-tech engineering companies. This acquisition will improve the digital engineering services we provide our clients, and help reinforce Virtusa’s leadership position as a go-to partner for digital business transformation programs.

Operational Excellence Services—based solutions. Our OES solutions enable our clients to use innovative approaches to effort compression, IT simplification and automation to generate significant improvements in IT efficiencies in their organizations, including significant cost savings, improved ability to manage and deploy high quality, robust applications, accelerate time to market and reduce risks to business from IT inefficiencies. Our OES solutions use our proprietary Platforming approach, pre-emptive application management techniques, test automation, Agile DevOps, gamified CICD, cloud migration and hosting, and Robotics Process Automation (“RPA”) to support our client CIOs and COOs reduce technical debt, lower total cost of ownership of IT assets, improve operational efficiencies and accelerate time to market. We use proprietary business consulting methodologies, like ASD, to help clients improve accuracy and scope of the solution being delivered, align organizational stakeholders on common, shared objectives, and accelerate the solution development process. Our unique platforming methodology helps clients rationalize their IT application infrastructure and develop lean, optimized enterprise application platforms that significantly lower the cost of maintenance, while improving the agility of the business to respond to emerging market demands.

We provide a set of OES solutions across the IT lifecycle:

IT & Business Consulting	Platforming	Solutions	Application Outsourcing
<ul style="list-style-type: none"> • Accelerated Solution Design (“ASD”) • Business Process Re-engineering 	<ul style="list-style-type: none"> • Lean Outcomes • Platforming 	<ul style="list-style-type: none"> • Business Process Management • Robotics Process Automation • Cloud Migration 	<ul style="list-style-type: none"> • Pre-emptive Application Management • IT managed services

Over the past two years, we have increased our investments in areas like cloud computing, RPA, and gamified CICD through the establishment of innovation labs to support solution development and co-create proofs-of-concept and minimum viable products with our clients.

Transformational solutions. We act as trusted advisors to our clients, combining our core services with deep industry specialization to deliver transformational solutions that help position our clients’ businesses for competitive advantage in their chosen markets.

Our transformational solutions across IT and business consulting, platforming, technology and application outsourcing areas include:

IT & Business Consulting	Platforming	Solutions	Application Outsourcing
<ul style="list-style-type: none"> • Domain solutions • Business process re-engineering • Large program management 	<ul style="list-style-type: none"> • Large global platforms 	<ul style="list-style-type: none"> • Claims management • Policy administration • Client lifecycle management • Know your customer • Regulatory & compliance • Billing systems • Customer experience management • Provider lifecycle management • Pharmaco-vigilance 	<ul style="list-style-type: none"> • Application support & maintenance platforms

We leverage our business consulting expertise to manage large, complex programs and deliver critical business process re-engineering advice to our clients. We have recently expanded our platforming expertise to cover large programs impacting global business platforms and multi-country implementations. The industry and domain expertise we have developed over the past decade has helped us develop business solutions like claims management and policy administration solutions for insurance companies; client lifecycle management, know your customer, and regulatory and compliance solutions for banks; member reach and care management solutions for healthcare providers; billing solutions for telecommunication providers; and customer experience management solutions for leisure and hospitality businesses.

Sales and marketing

Our global sales, marketing and business development teams seek to develop strong relationships with IT and business executives at prospective and existing clients to establish long-term business relationships that continue to grow in size and strategic value. At March 31, 2018 and 2017, we had 314 and 298 marketing and business development full time equivalents, respectively, including sales managers, sales representatives, client service partners, account managers, telemarketers, sales support personnel and marketing professionals.

The sales cycle for our services often includes initiating contact with a prospective client, understanding the prospective client’s business challenges and opportunities, performing discovery or assessment activities, submitting proposals, providing client case studies and references and developing proofs-of-concept or solution prototypes. We organize our sales teams in strategic business units by geography and with professionals who have specialized industry knowledge. This industry focus enables our sales teams to better understand the prospective client’s business and technology needs and to offer appropriate industry-focused solutions.

Sales and sales support. Our sales and sales support teams focus primarily on identifying, targeting and building relationships with prospective clients. These teams are supported in their efforts by industry specialists, technology consultants and solution architects, who work together to design client-specific solution proposals. Our sales and sales support teams are based in offices throughout the United States, Europe and Asia.

Account management. We assign experienced account managers who build and regularly update detailed account development plans for each of our clients. These managers are responsible for developing strong working relationships across the client organization, working day-to-day with the client and our service delivery teams to understand and address the client's needs. Our account managers work closely with our clients to develop a detailed understanding of their business objectives and technology environments. We use this knowledge to identify and target additional consulting engagements and other outsourcing opportunities.

Marketing. We maintain a marketing presence in the United States, Europe (including the United Kingdom), India, and Sri Lanka. Our marketing team seeks to build our brand awareness and generate target lists and sales leads through industry events, press releases, thought leadership publications, direct marketing campaigns and referrals from clients, strategic alliances and industry analysts. The marketing team maintains frequent contact with industry analysts and experts to understand market trends and dynamics.

Strategic alliances. We have strategic alliances with software companies, some of which are also our clients, to provide services to their customers. We believe these alliances differentiate us from our competition. Our extensive engineering, quality assurance and technology implementation and support services to software companies enable us to compete more effectively for the technology implementation and support services required by their customers. In addition, our strategic alliances with software companies allow us to share sales leads, develop joint account plans and engage in joint marketing activities.

Clients and industry expertise

We market and provide our services to companies in North America, Europe and Asia. For additional discussion regarding geographic information, see note 21 to our consolidated financial statements included elsewhere in this Annual Report. A majority of our revenue for the fiscal year ended March 31, 2018 was generated from Forbes Global 2000 firms or their subsidiaries. We believe that our regular, direct interaction with senior executives at these clients, the breadth of our client relationships and our reputation within these clients as a thought leader differentiate us from our competitors. The strength of our relationships has resulted in significant recurring revenue from existing clients. For instance, our largest client for the fiscal year ended March 31, 2018, Citi, accounted for 19% of our total revenue, and for the fiscal years ended March 31, 2017 and 2016, accounted for 17% and 3%, respectively.

We focus primarily on three industries: C&T, BFSI and M&I. We build expertise in these industries through our customer experience and industry alliances by hiring industry specialists and by training our business analysts and other team members in industry-specific topics. Drawing on this expertise, we strive to develop industry-specific perspectives and services.

Communications and technology. For our communications clients, we focus on customer service, sales and billing functions, and regulatory compliance, helping them improve service levels, reduce time-to-market and modernize their IT environments. For our technology clients, which include hardware manufacturers and software companies, we provide a wide range of industry-specific service offerings, including product management services, product architecture, engineering and quality assurance services, and professional services to support product implementation and integration. These clients often employ cutting-edge technology and generally require strong technical skills and a deep understanding of the software product lifecycle.

Banking, financial services and insurance. We provide services to clients in the retail, wholesale and investment banking areas; financial transaction processors; and insurance companies encompassing life, property and casualty and health insurance. For our BFSI clients, we have developed industry specific services for each of these sectors, such as an account opening framework for banks, compliance services for

financial institutions, and customer self-service solutions for insurance companies. The need to rationalize and consolidate legacy applications is pervasive across these industries and we have tailored our platforming approach to address these challenges.

Media and information. We focus primarily on solutions involving electronic publishing, online learning, content management, information workflow and mobile content delivery as well as personalization, search technology and digital rights management. Many M&I providers are focused on building common platforms that provide customized content from multiple sources, customized and delivered to many consumers using numerous delivery mechanisms. We believe our platforming approach is ideally suited to these opportunities.

Competition

The IT services market in which we operate is highly competitive, rapidly evolving and subject to shifting client needs and expectations. This market includes a large number of participants from a variety of market segments, including:

- offshore IT outsourcing firms, such as Cognizant Technology Solutions Corporation, HCL Technologies Limited, Infosys Technologies Limited, Capgemini Service SAS, Tata Consultancy Services Limited, Tech Mahindra Limited and Wipro Limited
- consulting and systems integration firms, such as Accenture PLC., Capgemini Service SAS, Computer Sciences Corporation, Deloitte Consulting LLP and IBM Global Services

We also occasionally compete with in-house IT departments, smaller vertically-focused IT service providers and local IT service providers based in the geographic areas where we compete. For instance on the millennial enablement side, we often compete with established digital services firms like SapientNitro or EPAM systems, as well as smaller vendors that compete on the basis of local presence, pricing and niche solutions/capabilities.

We expect additional competition from offshore IT outsourcing firms in emerging locations such as Eastern Europe, Latin America and China, offshore IT service providers with facilities in less expensive geographies within India and lower cost, near shore centers established by our competitors to provide accelerated staffing alternatives at competitive pricing.

We believe that the principal competitive factors in our business include technical expertise and industry knowledge, a breadth of service offerings to provide one-stop solutions to clients, a well-developed recruiting, training and retention model, responsiveness to clients' business needs, and quality of services. We believe that we compete favorably with respect to these factors. Many of our competitors, however, have significantly greater financial, technical and marketing resources and a greater number of IT professionals than we do. We cannot assure you that we will continue to compete favorably or that we will be successful in the face of increasing competition.

Human resources

We thrive to bring “human” to all our “resources.” We achieve this through cultivating a culture of empowering our team members at all levels and equipping them to nurture the teams below them. Our success lies in our ability to attract, develop, motivate and retain highly-skilled and multi-dimensional team members. We are able to accomplish this by focusing our people management strategy on six key components: recruiting, performance management, training and development, employee engagement and communication, compensation and retention. Our people management strategy also includes engaging subcontractors at all of our locations, especially in niche or hard to hire skills, on an as needed basis for specific client engagements.

Recruiting. To satisfy our clients needs, we need to ensure that we hire the best in market. Our global recruiting and hiring process addresses our need for a large number of highly-skilled, talented team members via a rigorous and efficient interview process involving technical, industry and analytics screening.

In 2017 we won Candidate Experience Awards for delivering outstanding experiences to candidates throughout the recruitment process in geographies like North American (NA) and APAC.

Over the years our campus hiring program has become very robust both in India and Sri Lanka. We started with an initiative called COE (Centre of Excellence) where we partner with colleges to develop IT curriculum, and support and train their faculty and award sponsorships. Our COE initiative in India commenced in the year 2014 and has grown from five colleges to sixteen colleges during our 2018 fiscal year. We have established eighteen COEs in sixteen colleges spread across the country. These COEs focus on current and futuristic skills like Java, data science, big data, Talend, cloud, CRM, specialized testing, BPM, front end engineering and Adobe CQ. This has resulted in a reduction of in-house training days post-hiring. These programs have helped us in improving the quality of hires, and ensuring our team members are project-ready faster.

Performance management. In our 2018 fiscal year, we took a step to move away from the traditional way of measuring employee performance and adopted a new platform called REPS (Real-time Engagement and Performance Score) for 40% for our team members. REPS is developed internally by our team and captures most of the performance areas on a real-time basis. The platform focuses on the need of having a transparent and gamified performance system for the millennial workforce. The platform also captures the engagement level of our team members, not just by measuring them on 4-5 key performance areas, but also on how they contribute to their self-development, teamwork and impact on the overall organization and its initiatives. Real-time performance data is visible to everyone, which enables a continuous feedback mechanism, which fosters trust, and empowers employees to be accountable for their performance in real time and not semi-annually as in the earlier framework. We have a roadmap for scaling up for larger population in the coming years. We won the Silver International Stevie Award for HR Department of the Year for innovation in employee empowerment.

Training and development. While we focus on hiring the best talent, our bigger focus is on development and reskilling our team members so that they remain relevant from a technology standpoint. We also focus on social learning through digital platforms wherein team members can collaborate and mentor each other to develop in technical field and behavioral space. We were able to deliver an average of 43.9 hours of training to our team members, resulting in higher deployment and higher retention as compared to the previous year. Virtusa has been recognized by ATD (Association for Talent Development) for the successful implementation of our Employee Learning week that we conducted in December 2017.

Employee engagement and communication. We strongly believe that open communication is essential to our team-oriented culture. Through regular company-wide updates from senior management, complemented by team member sessions at the regional, local and account levels, as well as regular town hall sessions, we ensure that we engage and interact with all our employees to optimize individual career paths while fostering a team culture. We use a digital platform called RAVE for acknowledging each other on a real-time basis on good work performed by our team members. We also use the platform to promote the pursuit of excellence, integrity, respect and leadership (PIRL) which are our core values. Yammer is another social digital business platform that we widely use to interact and share ideas and information with your colleagues. This strengthens collaboration and facilitates knowledge sharing, while driving transparency. We have been certified as one of UK's Top Employers for the 7th consecutive year, providing excellent employee conditions, nurturing talent, and striving to continuously improve employment practices.

Compensation. The best team members demand best remuneration. We consistently benchmark our compensation and benefits with relevant market data and make adjustments based on market trends and individual performance. Our compensation philosophy rewards performance by linking both variable compensation and salary increases to performance.

Retention. To attract, retain and motivate our team members, we seek to provide an environment that rewards entrepreneurial initiatives, adaptive leadership and performance. During the twelve months ended March 31, 2018, we experienced voluntary team member attrition at a rate of 11.8% and involuntary team member attrition at a rate of 7%, which includes 3.4% related to implementation of certain cost saving and restructuring initiatives. We remain committed to improving and sustaining our voluntary attrition levels consistent with our long-term stated goals.

We define attrition as the ratio of the number of team members who have left us during a defined period to the total number of team members that were on our payroll at the end of the period. Our human resources team, along with the business units, have been able to successfully bring down the voluntary attrition percentage from 14.5% in fiscal year 2017 to 11.8% in fiscal year 2018. We ensure retention of the right talent in the organization through various initiatives like:

- providing re-skilling and development opportunities to our team members
- sharing clear career paths with the team members and doing timely rotations so that team members get better exposure
- providing team members opportunities to interact with our clients in their transformational journey
- creating a transparent performance management system where team members can see each other's achievements through leader boards, thus inducing a competitive yet healthy work culture
- providing digital tools to ensure that team members are able to share their views cutting across all levels of the organization on a non-moderated platform
- ensuring that team members own their performance by focusing on self-development, knowing how to contribute to the team, and being aware of how they can make an impact on the overall organization
- adopting a system to manage our people-related transactions in a more efficient way based mainly on self-service modules, hence empowering our leaders and their team members to take faster and informed decisions related to people matters

At March 31, 2018, we had 20,491 team members worldwide. We also engage outside contractors from time to time to supplement our services on an as needed basis. None of our team members are covered by a collective bargaining agreement or represented by a labor union. We consider our relations with our team members to be good.

Network and infrastructure

Our global IT infrastructure is designed to provide uninterrupted service to our clients. Through a combination of targeted investments and a strong understanding of the emerging cybersecurity trends, we currently have a mature capability that can support any specific security and compliance requirements that our clients may have, in addition to the industry best-in-class safeguards that we already use to protect the client's network and infrastructure.

We use a secure, high-performance communications network to enable our clients' systems to connect seamlessly to each of our offshore global delivery centers. We provide flexibility for our clients to operate their engagements from any of our offshore global delivery centers by using mainstream network topologies, including site-to-site virtual private networks, international private leased circuits and multiprotocol label switching. We also provide videoconferencing, voice conferencing and Voice over Internet Protocol capabilities to our global delivery teams and clients to enable clear and uninterrupted communication in our engagements, be it intra-company or with our clients.

We monitor our network performance on a 24×7 basis to ensure high levels of network availability and periodically upgrade our network to enhance and optimize network efficiency across all operating

locations. We use leased telecommunication lines to provide redundant data and voice communication with our clients' facilities and among all of our facilities in Asia, the United States and Europe. We also maintain multiple sites across our global delivery centers in Asia, particularly our largest centers in India and Sri Lanka, and the United States back-up centers to provide for continuity of infrastructure and resources in the case of natural disasters or other events that may cause a business interruption.

Our network infrastructure and access is secured using two factor authentication, mobile data management, data leakage prevention, advanced malware protection and periodically subjected external vulnerability audits. We are ISO 27001 and ISO 22301 certified in all our major Asia centers to safeguard clients' and Virtusa's own information assets, and believe that we meet all our clients' stringent security requirements for ongoing business with them.

Intellectual property

We believe that our continued success depends in part on the skills of our team members, the ability of our team members to continue to innovate and our intellectual property rights. We rely on a combination of patent, copyright, trademark and design laws, trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property rights and proprietary methodologies. It is our policy to enter into confidentiality agreements with our team members and consultants that generally provide that any confidential or proprietary information developed by us or on our behalf be kept confidential. We have also designed procedures to generally control access to and distribution of our proprietary information. We pursue the registration of certain of our trademarks and service marks in the United States and other countries. We have registered the mark "Virtusa" in the United States, the European Community and India and have filed for registration of "Virtusa" in Sri Lanka. We have registered in the United States the service marks "BPM Test Drive" which we use to describe our consulting service offering involving business process management or BPM project implementation and "ACCELERATING BUSINESS OUTCOMES," which we use to describe the benefits of our services. We have no issued patents.

Our business involves the development of IT applications and other technology deliverables for our clients. Our clients usually own the intellectual property in the software applications that we develop for them. We generally implement safeguards designed to protect our clients' intellectual property in accordance with their needs and specifications. Our means of protecting our and our clients' proprietary rights, however, may not be adequate. Despite our efforts, we may be unable to prevent or deter infringement or other unauthorized use of our and our clients' intellectual property. Legal protections afford only limited protection for intellectual property rights and the laws of India and Sri Lanka do not protect intellectual property rights to the same extent as those of the United States and the United Kingdom. Time-consuming and expensive litigation may be necessary in the future to enforce these intellectual property rights.

In addition, we cannot assure you that our intellectual property or the intellectual property that we develop for our clients does not or will not infringe the intellectual property rights of others. Defending against such claims, even if they are not meritorious, could be expensive and divert our attention from operating our company. If we become liable to third parties for infringing upon their intellectual property rights, we could be required to indemnify our client(s), pay substantial damage awards and be forced to develop non-infringing technology, obtain licenses, or cease delivery of the applications that contain the infringing technology.

Virtusa Sustainability Program

During the fiscal year ending March 31, 2018, we continued to strengthen our sustainability program. The goal of our sustainability program is to help reduce our environmental footprint, with ethical maturity, respect and dignity to all. Our sustainability program is an extension of our core corporate values of PIRL. We believe in doing more, and better, with less to help reduce the environmental footprint of our operations.

Our sustainability program is based on the following core elements.

Area	Framework	Current Status
Health & Safety	OSHAS 18001:2007	Eleven technology centers in India and Sri Lanka are certified.
Environment (Code Green)	<ul style="list-style-type: none"> • ISO 14001:2004 (EMS) • ISO 50001:2011 Guidance (Energy) • ISO 14064 Guidance (Climate Change) 	<ul style="list-style-type: none"> • Eleven technology centers in India and Sri Lanka are certified for ISO 14001. • Encompasses climate change, emissions, energy, water and waste management. • We report our GHG emissions to the Carbon Disclosure Project.
Business Continuity Management	ISO 22301:2012	Nine technology centers in India, Sri Lanka, UK, USA and Hungary are certified.
Information Security	ISO 27001:2013	Seventeen technology centers in India, Sri Lanka, UK, USA, Singapore and Hungary are certified.
Labor Standards and Diversity	<ul style="list-style-type: none"> • SA 8000 Guidance • Modern Slavery Act 2015 (UK) • Equality Act 2010 (UK) • United Nations Convention on the Rights of Persons with Disabilities (UNCRPD) • United Nations Guiding Principles on Business and Human Rights (UNGPs) 	Policies formulated under SA 8000 guidance since July 2016.
Anti-Bribery and Corruption	<ul style="list-style-type: none"> • Foreign Corrupt Practices Act 1977 • Bribery Act 2010 (UK) 	Policy signed in line with framework.
Management Engagement, Social Impact	<ul style="list-style-type: none"> • ISO 26000 Guidance Companies Act 2013 section 135 (India) 	<p>Create social impact through the following:</p> <ul style="list-style-type: none"> • Digital Reach—Creating a digitally inclusive society. • Campus Reach—Supporting the next generation of IT professionals to be workforce ready. • Tech Reach—Using technology for good. <p>CSR Operating Committee for pan-India formed in 2015.</p>

In our fiscal year ended March 31, 2018, we mapped each of these core elements in the framework with the Sustainable Development Goals (SDGs) in order to identify business priorities. As a result, the following SDGs were identified as high priority: Gender Equality; Decent Work and Economic Growth; Responsible Consumption and Production; Climate Action; Peace, Justice and Strong Institutions. The following SFDs were identified as medium priority: Quality Education; Clean Water and Sanitation; Industry Innovation and Infrastructure; Partnerships for the Goals.

Our sustainability program is backed by relevant certification, policies and employee training for the core areas. During our fiscal year ended March 31, 2018, we obtained ISO 14001 and OHSAS 18001 certification for heritage Polaris Consulting technology centers in India. Under our Social Responsibility Program and related policies, we prohibit the use of forced labor, slavery or human trafficking and comply with all aspects of the Modern Slavery Act 2015 (UK)..

Engagement, transparency and reporting enable us to continuously improve our sustainability program. While we have been a signatory to the United Nations Global Compact (UNGC) since 2008, in 2017 we chose to strengthen our commitment by selecting the participant engagement level. We have also been responding to the Carbon Disclosure Project (CDP) Supply Chain program since 2011 and the Climate Change program since 2016. Our 2017 performance band was “B” and we received a “B” for the Supplier Engagement Rating. Our CDP response can be accessed at: <https://www.cdp.net/en/responses/20186>. Our Communication on Progress (COP) to the UNGC can be accessed at: <https://www.unglobalcompact.org/participation/report/cop/create-and-submit/active/392881>.

With regards to corporate social responsibility (CSR) activities, we focus on strategic projects where we can provide long term value. CSR projects are administered under three pillars: Campus Reach, Tech Reach and Digital Reach.

Campus Reach—Our Campus Reach initiative is an industry-academia partnership designed to support the next generation of IT professionals to be workforce ready and thereby contribute to the growth of the IT/BPO industry. Campus Reach includes support on curriculum development, an internship program, mentoring for final year projects and Academic Excellence Awards.

Tech Reach—Through Tech Reach, we use our software development and consulting expertise to contribute to projects of social benefit. Details of current Tech Reach projects are given below:

- Sahana: 80+ employees built the coordination portal for the Government of Sri Lanka (CNO) within two weeks of the 2004 tsunami. “Sahana” has since been donated for public good and has been used around the world, including in the United States, Japan, Pakistan and Philippines for disaster management.
- Akura: The “Akura” open source school management system was developed to help schools manage their administrative tasks more efficiently.
- Rehabilitation Management System (RMS): RMS was developed as a solution to expedite the re-integration of war rehabilitees in Sri Lanka and manage their vocational training needs. The software was a nominee at Computerworld Honors Program Laureate in 2011 and was selected as a case study by the UN Global Compact for its Responsible Business Advancing Peace program in 2013.
- Clean Chennai Mobile App: Our employees created a scalable application for the Clean Chennai initiative, which aims to manage waste in a sustainable manner and create public awareness to reduce litter. The application was developed in collaboration with the SWM and EDP team of Corporation of Chennai.
- 117 App: We developed an online solution for the Disaster Management Center (DMC) of Sri Lanka to facilitate better tracking and responsiveness to aid requests in the aftermath of the 2016 floods. Overall, more than 73,000 people were supported through the app.

Digital Reach—Through Digital Reach, we aim to create a digitally inclusive society by IT-enabling communities. We helped set up a Digital Learning Center (DLC) for war rehabilitees in Sri Lanka, and also set up over 70 IT labs in rural schools.

In India, we carried out the following corporate social responsibility activities during our fiscal year ended March 31, 2018:

- Virtusa sponsored the “Carbon Zero—Renewable Energy Innovation Challenge” hosted by the Indian Institute of Technology Madras (IIT Madras) jointly with IWMA (Industrial Waste Management Association), in collaboration with the U.S. Consulate General, Chennai. “Carbon Zero Challenge” aimed to accelerate innovations that address climate change and help achieve the larger goal of fostering a sustainable ecosystem.
- Support for Computer Shiksha, a nonprofit organization that works towards computer literacy among underprivileged children. The goal of Computer Shiksha is to reach a million children by 2020. Training is done through practical classroom learning as well as online videos.
- Virtusa extended support for Ullas Trust, which was started in 1997 by Polaris Consulting to recognize academic excellence in students from economically challenged areas and focuses on students from Class (Grade) 9 to 12. Over the two decades, Ullas has awarded merit scholarships to more than 52,000 students. In addition, the SUMMIT weekend enrichment programs provide five interventions of three hours each per year over the four year period of the child’s association with Ullas.

Business segments and geographic information

We view our operations and manage our business as one operating segment. For information regarding net revenue by geographic regions for each of the last three fiscal years, see note 21 to our consolidated financial statements for the fiscal year ended March 31, 2018 contained in this Annual Report.

Our corporate and available information

We were originally incorporated in Massachusetts in November 1996 as Technology Providers, Inc. We reincorporated in Delaware as eRunway, Inc. in May 2000 and subsequently changed our name to Virtusa Corporation in April 2002. Our principal executive offices are located at 132 Turnpike Road, Suite 300, Southborough, Massachusetts 01772, and our telephone number at this location is (508) 389-7300. Our website address is *www.virtusa.com*. We have included our website address as an inactive textual reference only. The information on, or that can be accessed through, our website is not part of, or incorporated by reference into, this Annual Report. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through the investor relations page of our internet website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. In addition, we make available our Code of Business Conduct and Ethics free of charge through our website. We intend to disclose any amendments to, or waivers from, our Code of Business Conduct and Ethics that are required to be publicly disclosed pursuant to rules of the SEC and the NASDAQ Stock Market by filing such amendment or waiver with the SEC and posting it on our website.

No information on our Internet website is incorporated by reference into this Annual Report on Form 10-K.

Item 1A. Risk Factors.

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. This discussion highlights some of the risks which may affect future operating results. These are the risks and uncertainties we believe are most important for you to consider. Our operating results and financial condition have varied in the past and may vary significantly in the future depending on a number of factors. We cannot be certain that we will successfully address these risks. If we are unable to address these risks, our business may not grow, our stock price may suffer and/or we may be unable to stay in business. Additional risks and uncertainties not presently known to us, which we currently deem immaterial or which are similar to those faced by other companies in our industry or business in general, may also impair our business operations.

Except for the historical information in this Annual Report, various matters contained in this Annual Report include forward-looking statements that involve risks and uncertainties. The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Annual Report and presented elsewhere by management from time to time. Such factors, among others, may have a material adverse effect upon our business, results of operations and financial condition. You should consider carefully the following risk factors, together with all of the other information included in this Annual Report. Each of these risk factors could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our common stock.

Risks relating to our business

Our revenue is highly dependent on a small number of clients, and the loss of, or material reduction in, revenue from any one of our major clients could significantly harm our results of operations and financial condition.

We have historically earned, and believe that over the next few fiscal years we will continue to earn, a significant portion of our revenue from a limited number of clients. For our fiscal years ended March 31, 2018 and 2017, our top three clients collectively generated approximately 31% and 27% of our revenue, respectively. For the fiscal year ended March 31, 2018, Citi accounted for 19% of our total revenue. The loss of, or material reduction in revenue from any one of our major clients could materially reduce our total revenue, harm our reputation in the industry and/or reduce our ability to accurately predict our revenue, net income and cash flow. The loss of, or material reduction in revenue from any one of our major clients could also adversely affect our gross profit and utilization as we seek to redeploy resources previously dedicated to that client. Generally, our clients retain us on a non-exclusive, engagement-by-engagement basis, rather than under exclusive long-term contracts and may typically terminate or reduce our engagements without termination related penalties. Accordingly, we cannot assure you that revenue from our major clients will not be significantly reduced in the future, including from factors unrelated to our performance or work product such as consolidation by or among our clients, or the acquisition of a client or cost savings initiatives of our clients which may result in immediate lower external spend by our clients. Further, the loss of, or material reduction in, revenue from any one of our major clients has required us, and could in the future require us, to increase involuntary attrition. This could have a material adverse effect on our attrition rate and make it more difficult for us to attract and retain IT professionals in the future.

We may not be able to maintain our client relationships with our major clients on existing or on continued favorable terms and our clients may not renew their agreements with us, in which case our business, financial condition and results of operations would be adversely affected. Our client concentration may also subject us to perceived or actual leverage that our clients may have, given their relative size and importance to us. If our clients seek to negotiate their agreements on terms less favorable to us and we accept such unfavorable terms, such unfavorable terms may have a material adverse effect on our business, financial condition and results of operations. Accordingly, unless and until we diversify and

expand our client base, our future success will significantly depend upon the timing and volume of business from our largest clients and the financial and operational success of these clients. If we were to lose one of our major clients or have a major client cancel substantial projects or otherwise significantly reduce its volume of business with us, our revenue and profitability would be materially reduced and our business and operating results would be seriously harmed.

We depend on clients concentrated in specific industries, such as BFSI, and with the Polaris acquisition, our BFS client concentration increased materially; we are therefore subject to enhanced risks relating to developments affecting these clients and industries that may cause them to reduce or postpone their IT spending.

In our fiscal year ended March 31, 2018, we derived substantially all of our revenue from clients in three industries: BFSI, C&T, and M&I. During our fiscal year ended March 31, 2018, we earned approximately 67% of our revenue from clients in the BFSI industries and our revenue from this industry vertical grew by approximately 25% from the prior fiscal year. Due to the Polaris acquisition, we have increased our industry concentration, most particularly in BFS. If any decline in the growth of the BFSI industries or large clients in such industries, particularly in the BFS or insurance industry, occurs, or if there is a significant consolidation in these industries or a decrease in growth or consolidation in other industry verticals on which we focus or impact of large clients in such industries, such events could materially reduce the demand for our services and negatively affect our revenue and profitability. If economic conditions weaken or slow, particularly in the industries in which we focus, our clients may significantly reduce or postpone their IT spending. Reductions in IT budgets, increased consolidation, or increased competition in these industries could result in an erosion of our client base and a reduction in our target market. Any reductions in the IT spending of companies in any one of these industries may reduce the demand for our services and negatively affect our revenue and profitability.

Restrictions on immigration may affect our ability to compete for and provide services to clients in the United States, Europe (particularly, the United Kingdom), or other countries, which could result in lost revenue, lower gross margins, delays in or losses of client engagements and otherwise adversely affect our ability to meet our growth, revenue and profit projections.

The vast majority of our team members are Indian and Sri Lankan nationals. The ability of our IT professionals to work in the United States, the United Kingdom and other countries depends on our ability to obtain the necessary visas and entry permits, including the H-1(B) visa. The Government conducts a random lottery to determine which H-1(B) applications will be adjudicated that year. Increasing demand for H-1(B) visas, or changes in how the annual limit is administered, could limit the company's ability to access those visas. In recent years, the United States has increased the level of scrutiny in granting H-1(B), L-1 and other business visas. The H-1(B) visa classification enables U.S. employers to hire qualified foreign workers in positions that require an education at least equal to a four-year bachelor degree in the United States in specialty occupations such as IT systems engineering and systems analysis. The H-1(B) visa usually permits an individual to work and live in the United States for a period of up to six years. Under certain circumstances, H-1(B) visa extensions after the six-year period may be available. H-1(B) visa holders are required to be paid the higher of the actual wage or the prevailing wage for their position at the site of their employment.

In addition, there are strict labor regulations associated with the H-1(B) visa classification, including disclosure, attestations and document retention. Employers who are H-1(B) dependent (i.e. those with fifteen percent (15%) or more of their workforce on H-1(B) visas are potentially subject to additional disclosures, attestations and subject to specific affirmative recruitment requirements if the employees they sponsor for H-1(B) visa do not qualify as "exempt" employees. An exempt employee is one who is either (a) paid an annual salary of at least \$60,000 or b) one who holds a masters or higher degree in a specialty occupation related to their employment. In September 2014, we became an "H-1(B) Dependent Employer." To avoid being subject to additional attestations, disclosures, and affirmative recruitment

requirements, we do not sponsor employees for H-1(B) visas who make less than \$60,000 per year. As a “H-1(B) Dependent Employer” our petitions are subject to greater scrutiny at the time of adjudication. All users of the H-1(B) program are subject to periodic site visits from the United States Citizenship and Immigration Services, or USCIS, to verify their compliance with immigration and Labor Regulations. In addition, the Wage and Hour Division of the United States Department of Labor may also conduct H-1(B) audits to verify compliance with labor regulations. A finding by the United States Department of Labor of willful or substantial failure by us to comply with existing regulations on the H-1(B) classification may result in back-pay liability, substantial fines, and/or a ban on future use of the H-1(B) program and other immigration benefits. We are users of the H-1(B) visa classification with respect to some of our key offshore workers who have relocated onsite to perform services for our clients. As a result of our H-1(B) Dependent Employer status, we are likely subjected to more site visits and a higher level of scrutiny by USCIS and the US Department of Labor than Non-Dependent Employers.

We also regularly transfer employees from our global subsidiaries, primarily those from India and Sri Lanka, to the United States to work on projects and at client sites using the L-1 visa classification. The L-1 visa allows companies abroad to transfer certain managers, executives and employees with specialized company knowledge to related United States companies such as a parent, subsidiary, affiliate, joint venture, or branch office. We have an approved “Blanket L Program,” under which the corporate relationships of our transferring and receiving entities have been pre-approved by the USCIS, thus enabling individual L-1 visa applications to be presented directly to a visa-issuing United States consular post abroad rather than undergoing the individual petition pre-approval process through USCIS in the United States. In recent years, both the United States consular posts that review initial L-1 applications and USCIS, which adjudicates individual petitions for initial grants and extensions of L-1 status, have become increasingly restrictive with respect to their interpretation of the regulations governing this category and all applications are subject to increased scrutiny. As a result, the rate of refusals of both individual and blanket L-1 petitions and of extensions has materially increased. In addition, even where L-1 visas are ultimately granted and issued, security measures undertaken by United States consular posts around the world have substantially delayed visa issuances as they are allowed the right to further scrutinize the visa and request for additional supporting documentation. Any inability to bring, or delays in bringing, qualified technical personnel into the United States to staff on-site customer locations would have a material adverse effect on our client engagements, our business, results of operations and financial condition. Due to these immigration delays, we may also be required to hire or subcontract resources locally to perform the work onsite, thus negatively impacting our gross margins and overall profitability.

Since 2010 US, immigration law has imposed enhanced filing fees on employers who are significantly dependent upon H-1(B) and L-1 visa holders. An employer whose overall count of full-time employee equivalents consists of 50% or more of individuals holding H-1(B) or L-1 visas are subject to an enhanced filing fee. That enhanced fee is \$4,000 and \$4,500 for each new H-1B or L-1 petition filed respectively. We have been required to pay these enhanced fees, as the percentage of our overall US based workforce holding H-1(B) and L-1 visa status remains above the 50% mark. While we closely monitor the visa makeup of our workforce in an attempt to minimize our exposure to such enhanced fees and make efforts to recoup these costs either directly from our clients or indirectly through our billing rates, these enhanced fees have had a negative impact on our gross profit and overall cost of operations. Further growth and increased demand for our services will likely make it increasingly difficult for us to avoid the payment of these fees, thus impacting our gross margins and overall profitability.

We also process immigrant visas for lawful permanent residence (green cards) in the United States for employees to fill positions for which there are an insufficient number of able, willing, and qualified United States workers available to fill the positions. Compliance with existing United States immigration and labor laws, or changes in those laws making it more difficult to hire foreign nationals or limiting our ability to successfully obtain permanent residence for our foreign employees in the United States, could require us to incur additional unexpected labor costs and expenses or could restrain our ability to retain the skilled

professionals we need for our operations in the United States. Any of these restrictions or limitations on our hiring practices could have a material adverse effect on our business, results of operations and financial condition.

In response to terrorist attacks and global unrest, U.S. and U.K. immigration authorities, as well as other countries, have not only increased the level of scrutiny and conditions to granting visas, but have also introduced new security procedures, which include extensive background checks, personal interviews and the use of biometrics, as conditions to granting visas and work permits. A number of European countries are considering changes in immigration policies as well. The inability of key project personnel to obtain necessary visas or work permits could delay or prevent our fulfillment of client projects, which could hamper our growth and cause our revenue to decline. These restrictions and additional procedures may delay, or even prevent the issuance of a visa or work permit to our IT professionals and affect our ability to staff projects in a timely manner. Any delays in staffing a project can result in project postponement, delays or cancellation, which could result in lost revenue and decreased profitability and have a material adverse effect on our business, revenue, profitability and utilization rates.

Immigration laws in countries in which we seek to obtain visas or work permits may require us to meet certain other legal requirements as conditions to obtaining or maintaining entry visas. These 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.

To the extent we experience delays due to immigration restrictions, we may encounter client dissatisfaction, project and staffing delays in new and existing engagements, project cancellations, project losses, higher project costs and loss of revenue, resulting in decreases in profits and a material adverse effect on our business, results of operations, financial condition and cash flows. Due to these immigration delays, we may also need to perform more work onsite, or hire more resources locally, thus reducing our gross margins and overall profitability.

Changes in U.S. immigration law, if approved into law, may increase our cost of revenue and may substantially restrict or eliminate our ability to obtain visas to use offshore resources onsite, which could have a material adverse impact on our business, revenue, profitability and utilization rates.

The issue of companies outsourcing services to organizations operating in other countries is a topic of political discussion in many countries, including the United States, which is our largest market. The U.S. Congress has been actively considering various proposals that would make extensive changes to U.S. immigration laws regarding the admission of high-skilled temporary and permanent workers. Further, the current U.S. administration or Congress may seek to limit the admission of high-skilled temporary and permanent workers and has issued and may continue to issue executive orders designed to limit immigration. Any such provisions may increase our cost of doing business in the United States and may discourage customers from seeking our services. Our international expansion strategy and our business, results of operations and financial condition may be materially adversely affected if changes in immigration and work permit laws and regulations or the administration or enforcement of such laws or regulations impair our ability to staff projects with professionals who are not citizens of the country where the work is to be performed

The potential risks and impact to our business if changes are made to immigration laws relating to use of H-1(B) and L-1 visas are approved could include:

- Reduced ability to bring in foreign workers on an L-1 or H-1(B) visa
- Increased scrutiny and requests for proof of eligibility on the use of L-1 and H-1(B) visas
- Higher costs, including wages and benefits, for H-1(B) and L-1 visa holders

- Elimination of the company’s ability to pay the living expenses of an L-1 visa holder on a tax-free basis
- Increased oversight by the Department of Labor (“DOL”) over issuance, use and administration of L-1 visas, just as the DOL currently oversees H-1(B) visas

Even if we are able to apply for, or obtain, such visas, we could incur substantial delays and costs in processing any such requests and our costs of operations could materially rise, thus materially and negatively impacting our gross margins and our statement of income. Any inability to obtain, or extended delays in obtaining, these visas, or any delays or inability to hire resources for existing or future client projects could materially delay or prevent our commencement or fulfillment of client projects, which could hamper our growth and cause our revenue to decline. In addition, we may have to hire or use local onsite resources at substantially higher wage levels, rather than using existing offshore resources to staff onsite engagements which would materially reduce our gross margins. Even if we use our offshore resources, we may have to put offshore resources on U.S. payroll at U.S. prevailing wage levels and full benefits, rather than the existing practice of being able to provide a per diem reimbursement to the offshore resource on a tax-free basis to cover living expenses while onsite. Our costs of revenue could then substantially increase and our gross profit and our gross margins could then be materially and adversely affected. Any such delays or inability to staff needed resources on client engagements may cause client dissatisfaction, project and staffing delays in new and existing engagements, project cancellations, higher project costs and loss of revenue, resulting in decreases in profits and a material adverse effect on our business, results of operations, financial condition and cash flows.

The international nature of our business exposes us to many complex risks, which may be beyond our control.

We have operations in the United States, the United Kingdom, the Netherlands, India, Sri Lanka, Germany, Singapore, Austria, Hungary, Malaysia, Switzerland and Sweden and we serve clients across North America, Europe and Asia, and with the Polaris acquisition, added operations in Hong Kong, United Arab Emirates, New Zealand, Japan, Australia and Canada. For the fiscal years ended March 31, 2018, 2017 and 2016, revenue generated outside of the United States accounted for 35%, 35% and 30% of total revenue, respectively. Our corporate structure also spans multiple jurisdictions, with Virtusa Corporation incorporated in Delaware and its operating subsidiaries organized in India, Sri Lanka, the United Kingdom, Hungary, Germany, Singapore, Austria, Malaysia, Sweden, Switzerland and the Netherlands, as well as Polaris and its operating subsidiaries which are incorporated in Australia, China, the United Arab Emirates, Japan and Canada. As a result, our international revenue and operations are exposed to risks typically associated with conducting business internationally, many of which are beyond our control. These risks include:

- negative currency fluctuations between the U.S. dollar and the currencies in which we conduct transactions, including most significantly, the U.K. pound sterling, the euro, the Indian rupee, the Swedish Krona, the Singapore dollar, the Canadian dollar and the Australian dollar (each in which our foreign revenues are principally denominated) and the Indian and Sri Lankan rupees (in which our foreign costs are primarily denominated)
- adverse income tax consequences resulting from foreign income tax examination, such as challenges to our transfer pricing arrangements and challenges to our ability to claim tax holiday benefits in the countries in which we operate
- difficulties in staffing, managing and supporting operations in multiple countries
- potential fluctuation or decline in foreign economies
- unexpected changes in regulatory requirements, including immigration restrictions, potential tariffs and other trade barriers

- legal uncertainty owing to the overlap of different legal regimes and problems in asserting contractual or other rights across international borders, including compliance with local laws of which we may be unaware
- government currency control and restrictions on repatriation of earnings
- the burden and expense of complying with the laws and regulations of various jurisdictions
- domestic and international economic or political changes, hostilities, terrorist attacks and other acts of violence or war

Negative developments in any of these areas in one or more countries could result in a reduction in revenue or demand for our services, the cancellation or delay of client contracts, business interruption, threats to our intellectual property, difficulty in collecting receivables and a higher cost of doing business, including higher taxes, any of which could negatively affect our business, financial condition or results of operations.

Changes in applicable tax regulations and resolutions of tax disputes could negatively affect our financial results.

We are subject to taxation in the U.S. and numerous foreign jurisdictions. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The changes included in the Tax Act are broad and complex. The final impacts of the Tax Act may differ from the estimates provided elsewhere in this report, possibly materially, due to, among other things, changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, any changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates we have utilized to calculate the impacts, including impacts from changes to current year earnings estimates and foreign exchange rates of foreign subsidiaries. It is very difficult to assess the overall effect of potential tax changes, and how they might impact our future financial results. For instance, during fiscal 2019, we expect additional guidance with respect to Base erosion tax and Global intangible low taxed income that might have an impact on our current estimates.

Our quarterly financial position, revenue, operating results and profitability are challenging to predict and may vary from quarter to quarter, which could cause our share price to decline significantly.

Our quarterly revenue, operating results and profitability have varied in the past and are likely to vary significantly from quarter to quarter in the future. The factors that are likely to cause these variations include:

- unanticipated contract or project terminations, or reductions in scope or size of IT engagements
- the continuing financial stability and growth prospects of our clients
- our ability under US GAAP to recognize the revenue associated with the services performed in the applicable fiscal period due to many factors, including having fully signed contractual agreements with our clients for such periods or our ability to produce the deliverables or meet the project milestones in accordance with agreed upon specifications or timelines in the applicable fiscal period and achieve revenue recognition under US GAAP
- lengthening of sales cycles
- the number, timing, scope and contractual terms of IT projects in which we are engaged
- delays in project commencement or staffing delays due to immigration issues or our inability to assign appropriately skilled or experienced personnel

- our ability to obtain visas or applicable work permits for offshore personnel to commence projects at a client site for new or existing engagements
- our ability to forecast demand for our services and thereby maintain an appropriate number of team members
- the accuracy of estimates of resources, effort, time and fees required to complete fixed-price projects and costs, effort and time incurred in the performance of each project
- changes in pricing in response to client demand and competitive pressures
- our inability to manage the optimum mix of onsite and offshore staffing or required use of subcontractors
- the mix of leadership and senior technical resources to junior engineering resources staffed on each project
- unexpected changes in the utilization rate of our IT professionals
- inability to collect our receivables from, or bill our unbilled services to, our clients due to our performance or client financial difficulties or client satisfaction with our performance, resulting in deferral of revenue recognition under US GAAP, delays in collection and/or negative impact on our cash flows
- seasonal trends, primarily our hiring cycle and the budget and work cycles of our clients
- the ratio of fixed-price contracts to time-and-materials contracts
- employee wage levels and increases in compensation costs, including timing of promotions and annual pay increases, particularly in India and Sri Lanka
- our ability to have the client reimburse us for travel and living expenses, especially the airfare and related expenses of our Indian and Sri Lankan offshore personnel traveling and working onsite in the United States or the United Kingdom
- acquisitions, including transaction-related costs and write-downs from future impairments of identified intangible assets and goodwill, and other one-time, non-recurring projects

As a result, our revenue and our operating results for a particular period are challenging to predict and may decline in comparison to corresponding prior periods regardless of the strength of our business. Our future revenue is also challenging to predict because we derive a substantial portion of our revenue from fees for services generated from short-term contracts that may be terminated or delayed by our clients without penalty. In addition, a high percentage of our operating expenses, particularly related to salary expense, rent, depreciation expense and amortization of purchased intangible assets, are relatively fixed in advance of any particular quarter and are based, in part, on our expectations as to future revenue. If we are unable to predict the timing or amounts of future revenue accurately, we may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall and fail to meet our forecasts. Unexpected revenue shortfalls may also decrease our gross margins and could cause significant changes in our operating results from quarter to quarter. As a result, and in addition to the factors listed above, any of the following factors could have a significant and adverse impact on our operating results, could result in a shortfall of revenue and could result in losses to us:

- a client's decision not to pursue a new project or proceed to succeeding stages of a current project
- the completion during a quarter of several major client projects, resulting in our having to pay underutilized team members in subsequent periods
- adverse business decisions of our clients regarding the use of our services

- our inability to transition team members quickly from completed projects to new engagements
- our inability to manage costs, including personnel, infrastructure, facility and support services costs
- exchange rate fluctuations

Due to the foregoing factors, it is possible that in some future periods our revenue and operating results may not meet the expectations of securities analysts or investors. If this occurs, the trading price of our common stock could fall substantially either suddenly, or over time.

The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum, or Brexit Referendum. The Brexit Referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the government of the United Kingdom formally initiates a withdrawal process, which the U.K. government initiated in March 2017. The Brexit Referendum has created political and economic uncertainty about the future relationship between the United Kingdom and the European Union and as to whether any other European countries may similarly seek to exit the European Union. As we have material operations in the United Kingdom and Europe and our global operations serve many customers with significant operations in those regions, our financial condition and results of operation may be impacted by such uncertainty.

For the fiscal year ended March 31, 2018, revenues from our customers in the United Kingdom and the rest of Europe represented 15% and 9%, respectively, of our consolidated revenues. A significant portion of our revenues from customers in the United Kingdom is generated in British pounds. This exposure subjects us to revenue risk with respect to our customers in the United Kingdom as well as to risk resulting from adverse movements in foreign currency exchange rates. In addition, for the fiscal year ended March 31, 2018, revenues from our BFSI customers represented 67% of our consolidated revenues. Uncertainty regarding future United Kingdom financial laws and regulations, the withdrawal terms of the United Kingdom from the European Union and the future trade terms between the United Kingdom and the European Union could negatively impact the financial services sector, including our customers in such sector, and as a consequence adversely impact our financial condition and results of operations. Further, it is uncertain what impact the withdrawal of the United Kingdom from the European Union will have on general economic conditions in the United Kingdom, the European Union and globally. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

If we cannot attract and retain highly-skilled IT professionals, our ability to obtain, manage and staff new projects and expand existing projects may result in loss of revenue and an inability to expand our business.

Our business is labor intensive and our ability to execute and expand existing projects and obtain new clients depends largely on our ability to hire, train and retain highly-skilled IT professionals, particularly project managers, IT engineers and other senior technical personnel. The improvement in demand for global IT services has further increased the need for employees with specialized skills or significant experience in IT services, particularly at senior levels and those with special skills. Further, there is intense worldwide competition for IT professionals with the skills necessary to perform the services we offer. If we cannot hire and retain such additional qualified personnel, our ability to acquire, manage and staff new projects and to expand, manage and staff existing projects, may be materially impaired. We may then lose revenue and our ability to expand our business may be harmed. For example, in our fiscal year ended March 31, 2018, our voluntary attrition rate was 11.8%. We, and the industry in which we operate, generally experience high employee attrition and we cannot assure you that we will be able to hire or retain the number and quality of technical personnel necessary to satisfy our current and future client needs. We also may not be able to hire and retain enough skilled and experienced IT professionals to replace those who leave. Additionally, if we have to replace personnel who have left our company, we will incur

increased costs not only in hiring replacements but also in training such replacements until they can become productive and billable to our clients. In addition, we may not be able to redeploy and retrain our IT professionals in anticipation of continuing changes in technology, evolving standards and changing client preferences. Our inability to attract and retain IT professionals, or delays or inability to staff needed resources on client engagements may cause client dissatisfaction, project and staffing delays in new and existing engagements, project cancellations, project losses, higher project costs and loss of revenue, resulting in decreases in profits and a material adverse effect on our business, results of operations, financial condition and cash flows.

The IT services market is highly competitive and our competitors may have advantages that may allow them to compete more effectively than we do to secure client contracts and attract skilled IT professionals.

The IT services market in which we operate includes a large number of participants and is highly competitive. Our primary competitors include offshore IT outsourcing firms and consulting and systems integration firms. We also occasionally compete with in-house IT departments, smaller vertically focused IT service providers and local IT service providers based in the geographic areas where we compete. We expect additional competition from offshore IT outsourcing firms in emerging locations such as Eastern Europe, Latin America and China, as well as offshore IT service providers with facilities in less expensive geographies within India.

The IT services industry in which we compete is experiencing rapid changes in its competitive landscape. Some of the large consulting firms and offshore IT service providers with which we compete have significant resources and financial capabilities combined with a greater number of IT professionals. Many of our competitors are significantly larger and some have gained access to public and private capital or have merged or consolidated with better capitalized partners. These events have created and may in the future create, larger and better capitalized competitors. Our competitors may have superior abilities to compete for market share and compete against us for our existing and prospective clients. Our competitors may also have larger engagements with our existing or prospective clients which, due to our size and scale, may provide our competitors with significant advantages in any competitive bidding process. Our competitors may also be better able to use significant economic incentives, such as lower billing rates or non-billable resources, to secure contracts with our existing and prospective clients or gain a competitive advantage by being able to staff engagements that we are unable to staff, due to our shortage of resources, our lack of special skill sets or immigration delays. Our competitors may also be better able to compete for and retain skilled professionals by offering them more attractive compensation or other incentives. These factors may allow our competitors to have advantages over us to meet client demands in an engagement requiring large numbers and varied types of resources with specific experience or skill-sets that we may not have readily available in the short-term or the long-term. We cannot assure you that we can maintain or enhance our competitive position against current and future competitors. Our failure to compete effectively could have a material adverse effect on our business, financial condition or results of operations.

Our previous acquisitions, including the eTouch and Polaris acquisitions, and any future acquisitions may be difficult to integrate, could divert the attention of key management personnel, materially disrupt our business, dilute stockholder value and materially adversely affect our financial results, including impairment of goodwill and other intangible assets, if we are unable to realize the expected revenue and synergy growth or efficiencies from these acquisitions.

For the Polaris, eTouch and other recent acquisitions, as well as any future acquisitions, we may incur substantial risks, including:

- inability to generate sufficient revenue or synergy growth to offset transaction costs or to maintain previous forecasts regarding revenue growth, profit margins and earnings per share forecasts

- underperformance of the acquired company as compared to our forecasts, resulting in lower utilization, lower gross margins and operating margins, higher operating costs and lower profits from our previous forecasts
- difficulties in integrating operations, technologies, accounting and personnel
- difficulties in supporting and transitioning clients of our acquired companies or strategic partners
- diversion of financial and management resources from existing operations
- potential loss of key team members
- assumption of responsibilities and obligations of the acquired business pursuant to the terms and conditions of services agreements that are not consistent with the terms and conditions that we typically accept and require
- unknown liabilities or liabilities for which indemnification may or may not apply and difficulties of recovering any indemnifiable losses

Our organizational structure could also make it difficult for us to efficiently integrate acquired businesses or technologies into our ongoing operations and assimilate employees of those businesses into our culture and operations. Accordingly, we might fail to realize the expected benefits or strategic objectives of any acquisition we undertake. Acquisitions also frequently result in the recording of goodwill and other intangible assets that are subject to potential impairments in the future that could harm our financial results. We have completed eleven acquisitions from November 2009 to March 31, 2018, including the closing of the Polaris and eTouch acquisitions. If we fail to successfully integrate these acquired companies or any company that we may acquire in the future and maintain their value, or if any existing or future acquired companies materially fail to perform in a manner consistent with our valuations or forecasts, we may suffer an impairment of our assets, resulting in an immediate charge to our consolidated statement of income. Any such failure to integrate an acquired company, or any impairment of intangible assets or goodwill of any such acquired company could have a material adverse impact on our consolidated balance sheet and consolidated statements of income.

There can be no assurance that our business, results of operations and financial condition or our cash needs will not be adversely affected by our incurrence of indebtedness or obligations incurred in connection with our issuance of convertible preferred stock.

On May 3, 2017, we issued to the Orogen Group, an independent private company focused on supporting growth-oriented businesses, 3,000,000 shares of convertible preferred stock, which requires a 3.875% dividend per annum, payable quarterly in additional shares of common stock and/or cash at our option, for an aggregate purchase price of \$108 million with a maturity/redemption date of May 3, 2024 and an initial conversion price of \$36.00 (the “Orogen Preferred Stock Financing”). There is no guarantee that we will be able make cash payments on our preferred stock, our stockholders will not suffer increased dilution due to terms of our outstanding convertible preferred stock or that we will realize any synergies or increases in revenue to offset any such dilution to our stockholders.

In addition to the Orogen Preferred Stock Financing, we have also incurred substantial indebtedness under a senior secured debt facility to finance the Polaris transactions, including the delisting process of Polaris, and the eTouch acquisition. On February 6, 2018, we entered into a \$450.0 million credit agreement with a syndicated bank group, which amends and restates our prior \$300.0 million credit agreement under the new credit facility, we drew down \$180.0 million on the new term loan and \$55.0 million on the new revolving credit facility to repay in full the prior credit facility and fund the Polaris delisting transaction. We are obligated to pay certain interest and amortization payments under this new credit facility. The term of the Credit Agreement is five years, ending February 6, 2023. As of March 31, 2018, the outstanding amount under the Credit Agreement was \$305.0 million.

There is no guarantee that we will be able to service the interest and principal payments on our debt or make cash payments on our preferred stock or that our business, results of operations and financial condition will not be adversely affected by our incurrence of indebtedness or our stockholders will not suffer increased dilution due to terms of our outstanding convertible preferred stock.

We may incur additional indebtedness in the future, which may be significant. If we draw down from our credit facility, or if we want to pay required dividends in cash on our outstanding convertible preferred stock, we will be required to have sufficient cash available in the United States to pay scheduled installments, accrued interest and fees from time to time and at maturity on our term loan or for dividends on our preferred stock payments if we want to pay in cash and not pay our dividends in common stock which will increase the dilutive impact of the financing. If we do not have sufficient cash available in the United States or we fail to generate sufficient cash from operations in the United States, we may be unable to service the debt or pay dividends in cash on our convertible preferred stock or we may be required to repatriate earnings held by our foreign subsidiaries. Any such repatriation would cause us to accrue the applicable amount of taxes associated with such earnings at that time, which could have a material adverse effect on our results of operations. In addition, we may not have sufficient cash in the United States or abroad to make payments on our debt obligations or dividends in cash on our convertible preferred stock, which could cause us to seek additional debt or equity capital or restructure or refinance our existing indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations or dividend payments on our convertible preferred stock in cash or that we can avoid increased dilution to our stockholders under the terms of our convertible preferred stock.

In addition, the credit agreement contains certain financial and other covenants, including customary minimum cash, maximum debt to EBITDA and minimum fixed charge coverage covenants. Failure to comply with these covenants or other provisions of the credit agreement could result in a default under the credit agreement, requiring us to either cure such default, receive a waiver, or in the absence of such cure or waiver, refinance any outstanding indebtedness under the credit agreement. There is no assurance that we would be able to refinance our debt on acceptable terms and conditions. Moreover, if we are unable to force conversion of the preferred stock to common stock or there is not a conversion event of the preferred stock holders to common stock prior to May 3, 2024, under the terms of our convertible preferred stock, we are required to redeem the shares of preferred stock. There is no assurance that we would be able to redeem the preferred stock or obtain financing on acceptable terms and conditions, if at all.

Despite our senior secured credit facility and the Orogen Preferred Stock Financing, we may need to raise capital in the future, although our ability to raise capital may be limited.

In connection with the Polaris acquisition, delisting process and related transactions, as well as the eTouch acquisition, we entered into a credit facility for \$450.0 million, which amends and restates our prior \$300.0 million credit agreement and provides for a \$200.0 million revolving credit facility, a \$180.0 million term loan facility, and a \$70.0 million delayed-draw term loan, of which we have drawn down \$71 million in term loan and \$49 million from the line of credit to buy the Polaris shares, with \$145 million remaining under the revolving credit facility. On May 3, 2017, we closed the Orogen Preferred Stock Financing, amended our credit agreement primarily to issue the convertible preferred stock and pay certain dividends with respect to the convertible preferred stock and used \$81 million of the convertible preferred stock proceeds to repay part of our \$200 million term loan.

If our remaining revolving credit facility, cash flows and proceeds from the preferred stock sale are not sufficient to fund our strategic investments or operations, we may seek to raise additional funds through the issuance of equity or convertible debt securities, whereby the percentage ownership of our stockholders could be significantly diluted and these newly issued securities may have rights, preferences or privileges senior to those of existing stockholders. If we seek to obtain additional debt financing, there is no assurance that existing lenders will permit additional indebtedness, and even if permitted, a substantial

portion of our operating cash flow may be dedicated to the payment of principal and interest on such indebtedness, thus limiting funds available for our business activities and increasing our costs of operations, which could have a material adverse impact on our operating margins. Any such debt financing could require us to comply with restrictive financial and operating covenants, which could have a material adverse impact on our business, results of operations or financial condition and there is no guarantee or assurance that any such credit facility will be available or if so, on reasonable terms.

We cannot assure you that additional financing will be available on terms favorable to us, or at all or in the locations where we need the additional capital. If adequate funds are not available or are not available on acceptable terms, when we desire them, our ability to fund our operations and growth, take advantage of unanticipated opportunities or otherwise respond to competitive pressures may be significantly limited.

Our substantial level of debt and related obligations, including interest payments, covenants and restrictions, as well as our obligations under our Orogen Preferred Stock Financing, including annual and quarterly dividend obligations and the redemption requirement, could have important consequences, including by:

- impairing our ability to invest in and successfully grow our business and make acquisitions
- making it more difficult for us to satisfy our obligations with respect to our indebtedness, which could result in an event of default
- limiting our ability to obtain additional financing on satisfactory terms to fund our working capital requirements, capital expenditures, acquisitions, debt obligations and other general corporate requirements;
- hindering our ability to raise equity capital
- increasing our vulnerability to general economic downturns, competition and industry conditions, which could place us at a competitive disadvantage compared to competitors that are less leveraged and therefore we may be unable to take advantage of opportunities that our leverage prevents us from exploiting
- imposing additional restrictions on the manner in which we conduct our business, including restrictions on our ability to pay dividends, incur additional debt and sell assets
- placing us at a possible disadvantage relative to less leveraged competitors and competitors that have better access to capital resources

The occurrence of any one of these events could have an adverse effect on our business, financial condition, operating results or cash flows and ability to satisfy our obligations under our indebtedness our preferred stock holders. Insufficient funds may require us to delay, scale back or eliminate some or all of our activities.

We could be subject to strict restrictions on the movement of cash and the exchange of foreign currencies which could limit our access to cash in non-U.S. locations to fund our U.S. operations or otherwise make investments where needed.

In some countries, we could be subject to strict restrictions on the movement of cash and the exchange of foreign currencies, which would limit our ability to use this cash across our global operations. This risk could increase as we continue our geographic expansion in emerging markets, which are more likely to impose these restrictions than more established markets. We therefore may not have ready access to cash in geographies where we need to make investments. For instance, at March 31, 2018, we had approximately \$244.9 million of cash, cash equivalents, short term investments and long-term investments of which we hold approximately \$191.0 million of cash, cash equivalents, short term investments and long-term investments in non-U.S. locations, particularly in India, Sri Lanka, Singapore and the United Kingdom.

Cash in these non-U.S. locations may not otherwise be available for servicing debt obligations, potential investment or use for operations in the United States or other geographies where needed, as we have stated that this cash is indefinitely reinvested in these non-U.S. locations. Moreover, even if we were to repatriate this cash back to the United States for use in U.S. investments, this cash would be subject to additional taxes. Due to various methods by which cash could be repatriated to the United States in the future, the amount of taxes attributable to the cash is dependent on circumstances existing if and when remittance occurs. Due to the various methods by which such earnings could be repatriated in the future, it is not practicable to determine the amount of applicable taxes that would result from such repatriation. In addition, some countries could have tight restrictions on the movement and exchange of foreign currencies which could further limit our ability to use such funds for repayment of debt, global operations or capital or other strategic investments. Our inability to access our cash where and when needed could impede our ability to service our debt obligations, make investments and support our operations.

We may face damage to our professional reputation and be subject to legal claims and litigation, including high and unexpected costs as a result of any litigation or client disputes, if our services do not meet our clients' expectations or violate contractual terms with our clients.

Many of our projects involve technology applications or systems that are critical to the operations of our clients' businesses and handle very large volumes of transactions. If we fail to perform our services correctly, we may be unable to deliver applications or systems to our clients with the promised functionality or within the promised time frame, or to satisfy the required service levels for support and maintenance. If a client is not satisfied with our services or products, including those of subcontractors we employ, we may not be able to invoice for our services, or if we do invoice, we may not be able to collect the fees due on such engagements and our business may suffer. Moreover, if we fail to meet our contractual obligations, our clients may terminate their contracts and we could face legal liabilities, and increased costs, including warranty or breach of contract claims against us. If we were not to prevail in the litigation, we may be required to refund all fees paid, reverse previously recognized revenues or pay damages suffered by the client which may exceed the value of the contract, despite limitation of liability provisions in the contract. If any adverse litigation or arbitration award were granted against us, we may not have reserved sufficiently (or at all, depending on the probability of outcome) for these losses and, as such, these losses could result in reversal of revenues or increased and unexpected financial losses which could have a material and negative impact on our statement of operations and cash position in the financial quarter and fiscal year in which the award was granted. Any failure in a client's project could also result in a claim for substantial damages, our inability to recognize all or some of the revenue for the client project, potential reversals of revenue previously recognized, non-payment of outstanding invoices, increased expenses due to increase in reserves for doubtful accounts, loss of future business with such client, increased costs due to non-billable time of our resources dedicated to address any performance or client satisfaction issues, or litigation costs and expenses, regardless of our responsibility for such failure.

We may face difficulties in providing end-to-end business solutions or 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, results of operations and financial condition.

We have been expanding the nature and scope of our engagements and have added new service offerings across the industries we serve. The success of these service offerings depends, in part, upon continued demand for such services by our existing and prospective clients and our ability to meet this demand in a cost-competitive and effective manner. To obtain engagements for such end-to-end solutions, we also are more likely to compete with large, well-established international consulting firms, resulting in increased competition and pricing pressure. 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 prospective clients to these service offerings.

The increased breadth of our service offerings has resulted and may continue to result in larger and more complex projects with our clients. This requires us to establish closer relationships with our clients and achieve a thorough understanding of their operations. Our ability to establish such relationships depends on a number of factors, including the proficiency of our professionals and our management personnel. Our failure to understand our client requirements or our failure to deliver services that meet the requirements specified by our clients could result in termination of client contracts, client disputes and contractual claims against us, and we could be liable to our clients for significant penalties or damages, as well as legal and litigation costs if claims are not resolved amicably, each of which could have a material adverse effect on our business, results of operations and financial condition.

Larger projects often 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 business, results of operations and financial condition.

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

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, other SEC regulations, and the Nasdaq Global Select Market rules, are creating 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 control 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 control over financial reporting, remediate any control deficiencies that may be identified, and validate through testing that our control environment is functioning as documented. While we do not anticipate any material weaknesses, the inability of management and our independent registered public accountant to provide us with an unqualified report as to the adequacy and effectiveness, respectively, of our internal controls over financial reporting, including operations of any acquired businesses, such as Polaris or eTouch, in the applicable reporting period, for future year-ends 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.

Our management team and other personnel will need to devote a substantial amount of time to these compliance initiatives which extend to all of our subsidiaries, including Polaris and its subsidiaries. In particular, these increased obligations will require substantial attention from our senior management and divert its attention away from the day-to-day management of our business, which could materially and adversely affect our business operations.

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.

Currency exchange rate fluctuations may materially and negatively affect our revenue, gross margin, operating margin, net income and cash flows.

The exchange rates among the Indian and Sri Lankan rupees and the U.S. dollar and the U.K. pound sterling, as well as the exchange rates between the U.S. dollar and the U.K. pound sterling, have changed substantially in prior periods and may continue to fluctuate substantially in the future. We expect that a majority of our revenue will continue to be generated in the U.S. dollar, U.K. pound sterling, Indian Rupee, the Australian dollar, the Canadian dollar and the Singapore dollar for the foreseeable future. Any appreciation of the U.S. dollar against the U.K. pound sterling, the euro, the Indian rupee, the Singapore dollar, the Canadian dollar and/or the Australian dollar will likely have a negative impact on our revenue, operating income and net income. For the foreseeable future, we also expect that a significant portion of our expenses, including personnel costs and operating expenditures, will continue to be denominated in Indian and Sri Lankan rupees. Accordingly, any material appreciation of the Indian rupee or the Sri Lankan rupee against the U.S. dollar or U.K. pound sterling could have a material adverse effect on our cost of revenue, gross margins and net income, which may in turn have a negative impact on our business, operating results, financial condition and results of operations.

Our operating results may be adversely affected by our use of derivative financial instruments.

There is no guarantee that our financial results will not be adversely affected by currency exchange rate fluctuations or that any efforts by us to engage in currency hedging activities will be effective.

Although we have adopted a six-quarter cash flow hedging program to minimize the effect of any Indian rupee fluctuation on our financial condition, these hedges may not be effective or may cause us to forego certain potential benefits, especially given the volatility of the currency. In addition, to the extent that these hedges cease to qualify for hedge accounting, we may have to recognize the derivative instruments' unrealized gains or losses in earnings prior to maturity. If we are unable to accurately forecast our Indian-rupee denominated costs, we may lose our ability to qualify for hedge accounting. We cannot guarantee our ability to accurately forecast such expenses. In addition, as part of the Polaris acquisition, we have assumed a cash flow program designed to mitigate the impact of the volatility of the translation of Polaris U.S. dollar denominated revenue into Indian rupees over a rolling 18-month period. While these hedges are achieving their designed objective for Polaris, upon consolidation they may cause volatility in our U.S. dollar denominated revenue due to variations between monthly average and contract hedge rates when converting back to U.S. dollars in consolidation. Furthermore, we are exposed to foreign currency volatility related to other currencies including, the Swedish Krona, the Canadian dollar, the euro, the Singapore dollar, the Sri Lankan rupee, and the Australian dollar, which are either not hedged or not hedged in full. Any significant change as compared to the U.S. dollar could have a negative impact on our revenue, operating profit, and net income. Finally, as we continue to leverage our global delivery model, more of our expenses will be incurred in currencies other than those in which we bill for the related services. An increase in the value of these currencies, such as the Indian rupee or Sri Lankan rupee, against the U.S. dollar or U.K. pound sterling could increase costs for delivery of services at off-shore sites by increasing labor and other costs that are denominated in the respective local currency.

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

We are subject to numerous, and sometimes conflicting, legal regimes on matters as diverse as anti-corruption, import/export controls, content requirements, trade restrictions, tariffs, taxation, sanctions, immigration, internal and disclosure control obligations, securities regulation, anti-competition, data privacy and protection, employment and labor relations. Some of these legal regimes are in emerging markets where legal systems may be less developed or familiar to us. Compliance with diverse legal requirements is costly, time-consuming and requires significant resources. Violations of one or more of these regulations in the conduct of our business could result in significant fines, criminal sanctions against us or our officers, prohibitions on doing business and damage to our reputation. Violations of these regulations in connection with the performance of our obligations to our clients also could result in liability for significant monetary damages, fines and/or criminal prosecution, unfavorable publicity and other reputational damage, 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 may not be well developed or provide sufficiently clear guidance and may be insufficient to protect our rights.

In particular, in many parts of the world, including countries in which we operate and/or seek to expand, it is possible that our employees, subcontractors or agents in the local business community might not conform to international business standards and could violate anti-corruption laws, or regulations, including the UK Bribery Act of 2010 and the U.S. Foreign Corrupt Practices Act (“FCPA”) which prohibit 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. 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, regulations or standards. Violations of these laws or regulations by us, our employees or any of these third parties could subject us to criminal or civil enforcement actions (whether or not we participated or knew about the actions leading to the violations), including fines or penalties, disgorgement of profits and suspension or disqualification from work, any of which could materially adversely affect our business, including our results of operations and our reputation.

If we do not continue to maintain or improve our operational, financial and other internal controls and systems to manage our growth and size or if we are unable to enter, operate and compete effectively in new geographic markets, our business may suffer and the value of our stockholders’ investment in our Company may be harmed.

Our growth, including the eTouch acquisition and integration of eTouch into Virtusa, will continue to place significant demands on our management and other resources and will require us to continue to develop and improve our operational, financial and other internal controls in the United States, Europe, India, Sri Lanka and elsewhere. In particular, our continued growth will increase the challenges involved in:

- recruiting, training and retaining technical, finance, marketing and management personnel with the knowledge, skills and experience that our business model requires
- maintaining high levels of client satisfaction
- developing and improving our internal administrative infrastructure and controls, particularly our financial, operational, communications and other internal systems and controls
- preserving our culture, values and entrepreneurial environment

- effectively managing our personnel and operations and effectively communicating to our personnel worldwide our core values, strategies and goals
- ensuring the accounting and internal controls in Polaris are at least as stringent as those in Virtusa and comply with applicable rules, regulations and requirements to which Virtusa is subject, such as compliance with Sarbanes-Oxley (“SOX”) and SEC rules and regulations.

In addition, the increasing size and scope of our operations increase the possibility that a member of our personnel will engage in unlawful or fraudulent activity, breach our contractual obligations, or otherwise expose us to unacceptable business risks, despite our efforts to train our people and maintain internal controls to prevent such instances. If we do not continue to maintain and/or develop and implement the right processes and tools to manage our enterprise, our ability to compete successfully and achieve our business objectives could be impaired.

We may not be able to obtain, develop or implement new systems, infrastructure, procedures and controls that are required to support our operations, maintain cost controls, market our services and manage our relationships with our clients.

To manage our operations effectively, we must continue to maintain and may need to enhance our IT infrastructure, financial and accounting systems and controls and manage expanded operations in several locations. We also must attract, integrate, train and retain qualified personnel, especially in the areas of accounting, internal audit and financial disclosure. Further, we will need to manage our relationships with various clients, vendors and other third parties. We may not be able to develop and implement on a timely basis, if at all, the systems, infrastructure procedures and controls required to support our operations, including infrastructure management, and controls regarding usage and deployment of hardware and software, for performance of our services. Any failure by us to comply with these controls or our contractual obligations could result in legal liability to us, which would have a negative impact on our consolidated statements of income and consolidated balance sheets. Additionally, some factors, like changes in immigration laws or visa processing restrictions that limit our ability to engage offshore resources at client locations in the United States, the United Kingdom or other countries, are outside of our control. Our future operating results will also depend on our ability to develop and maintain a successful sales organization and processes that can ensure our ability to effectively monitor, manage and forecast our sales activities and resource needs. If we are unable to manage our operations effectively, our operating results could fluctuate from quarter to quarter and our financial condition could be materially adversely affected.

The failure to successfully and timely implement certain financial system changes to improve operating efficiency and enhance our reporting controls could harm our business.

We have implemented and continue to install several upgrades and enhancements to our financial systems. We expect these initiatives to enable us to achieve greater operating and financial reporting efficiency and also enhance our existing control environment through increased levels of automation of certain processes. Failure to successfully implement and execute these initiatives in a timely, effective and efficient manner could significantly increase our costs, distract our management, and result in the disruption of our operations, the inability to comply with our Sarbanes-Oxley obligations and the inability to report our financial results in a timely and accurate manner.

Our share price could be adversely affected if we are unable to maintain effective internal controls.

The accuracy of our financial reporting is dependent on the effectiveness of our internal controls. We are required to provide a report from management to our stockholders on our internal control over financial reporting that includes an assessment of the effectiveness of these controls. Internal control over financial reporting has inherent limitations, including human error, 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. If we cannot maintain and execute adequate internal control over financial reporting or implement required new or improved controls to ensure the reliability of the financial reporting and preparation of our financial statements for external use, we could suffer harm to our reputation, fail to meet our public reporting requirements on a timely basis, or be unable to properly report on our business and the results of our operations, and the market price of our securities could be materially adversely affected.

We are investing substantial cash in new facilities and our profitability could be reduced if our business does not grow proportionately.

We intend to make increased investments in our existing global delivery centers in Asia, particularly our largest centers in India and Sri Lanka. We may face cost overruns and project delays in connection with these facilities or other facilities we may construct or seek to lease in the future. Such delays may also cause us to incur additional leasing costs to extend the terms of existing facility leases or to enter into new short-term leases if we cannot move into the new facilities in a timely manner. Such investment may also significantly increase our fixed costs, including an increase in depreciation expense. If we are unable to expand our business and revenue proportionately, our profitability would be reduced.

We may be audited by software vendors from whom we license or use their software to train our resources or serve our clients, which may result in claims for infringement, violations of license provisions, or other damages.

From time to time, we are subject to audit by our vendors from whom we license and use software to confirm compliance with usage and deployment requirements. If, as a result of these audits or otherwise, vendors believe that we have committed usage or deployment violations, we may be required to purchase software from these vendors, and we may be subject to claims of infringement or wrongful usage which may result in legal liability to us, including damages, legal fees and expenses. In addition to legal liability and related expense of any litigation, which may include damages and the obligations to purchase software from such software vendor, we may be prevented from using the vendor's software in the future which may have a material and negative impact on our ability to service our customers, conduct training of our IT professionals and generally perform our services.

Negative public perception in the markets in which we sell services regarding offshore IT service providers and proposed anti-outsourcing legislation may adversely affect demand for our services.

We have based our growth strategy on certain assumptions regarding our industry, services and future demand in the market for such services. However, the trend to outsource IT services may not continue and could reverse. Offshore outsourcing is a politically sensitive topic in the United States and the United Kingdom. For example, recently many organizations and public figures in the United States and the United Kingdom have publicly expressed concern about a perceived association between offshore outsourcing providers and the loss of jobs in their home countries. In addition, there has been recent 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 from onshore to offshore providers to avoid negative perceptions that may be associated with using an offshore provider. Any slowdown or reversal of existing industry trends towards offshore outsourcing would seriously harm our ability to compete effectively with competitors that operate out of facilities located in the United States or the United Kingdom. Legislation in the United States or in certain European countries may be enacted that is intended to discourage or restrict outsourcing. Any changes to existing laws or the enactment of new legislation restricting offshore outsourcing in the United States or the United Kingdom may adversely affect our ability to do business in the United States or in the United Kingdom, particularly if these changes are widespread, and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Cyber-attacks as well as improper disclosure or control of personal information could result in liability and harm our reputation, which could adversely affect our business and results of operations.

Our business is heavily dependent on the security of our IT networks and those of our clients. Internal or external attacks on any of those could disrupt the normal operations of our engagements and impede our ability to provide critical services to our clients, thereby subjecting us to liability under our contracts. Additionally, our business involves the use, storage and transmission of information about our employees, our clients and customers of our clients. While we take measures to protect the security of, and unauthorized access to, our systems, as well as the privacy of personal and proprietary information, it is possible that our security controls over our systems, as well as other security practices we follow or those systems of our clients into which we operate and rely upon, may not prevent the improper access to or disclosure of personally identifiable or proprietary information. Such disclosure could harm our reputation and subject us to liability under our contracts and laws that protect personal data, resulting in increased costs or loss of revenue.

Further, data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions and countries in which we provide services and continue to develop in ways which we cannot predict, including with respect to evolving technologies such as cloud computing. This includes the Global Data Protection Regulation (GDPR), the European Union-wide legal framework to govern data collection, use and sharing and related consumer privacy rights, expected to take effect in 2018. The GDPR includes significant penalties for non-compliance. Our failure to adhere to or successfully implement processes in response to changing regulatory requirements in this area could result in legal liability or impairment to our reputation in the marketplace, which could have a material adverse effect on our business, financial condition and results of operations.

We may face liability if we breach our obligations related to the protection, security, nondisclosure of confidential client information or disclosure of sensitive data or failure to comply with data protection laws and regulations.

In the course of providing services to our clients, we may have access to confidential client information, including nonpublic personal data. We are bound by certain agreements to use and disclose this information in a manner consistent with the privacy standards under regulations applicable to our clients and are subject to numerous U.S. and foreign jurisdiction laws and regulations designed to protect this information, such as the European Union Directive on Data Protection and various U.S. federal and state laws governing the protection of health or other individually identifiable information. If any person, including a team member of ours, misappropriates client confidential information, or if client confidential information is inappropriately disclosed due to a security breach of our computer systems, system failures or otherwise, or if a security breach occurs on a project on which we are engaged, we may have substantial liabilities to our clients or our clients' customers and may incur substantial liability and penalties in connection with any violation of applicable privacy laws and/or criminal prosecution. In addition, in the event of any breach or alleged breach of our confidentiality agreements with our clients, these clients may terminate their engagements with us or sue us for breach of contract, resulting in the associated loss of revenue and increased costs and damaged reputation. We may also be subject to civil or criminal liability if we are deemed to have violated applicable regulations. We cannot assure you that we will adequately address the risks created by the regulations to which we may be contractually obligated to abide.

In addition, as a global service provider with customers in a broad range of industries, we often have access to or are required to manage, utilize, collect and store sensitive data subject to various regulatory regimes, including but not limited to U.S. federal and state laws governing the protection of personal financial and health data and the European Union Directive on Data Protection (to be superseded by the European Union's General Data Protection Regulation in May 2018). If unauthorized access to or disclosure of such data in our possession or control occurs or we otherwise fail to comply with applicable laws and regulations in this regard, we could be exposed to civil or criminal enforcement actions and penalties in connection with any violation of applicable data protection laws, as well as lawsuits brought by

our customers, our customers' customers, their clients or others for breaching contractual confidentiality and security provisions or data protection laws. Laws and expectations relating to data protections continue to evolve in ways that may limit our access, use and disclosure of sensitive data, and may require increased expenditures by us or may dictate that we not offer certain types of services.

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 have general liability insurance coverage, including coverage for errors or omissions, there can be no assurance that coverage will continue to be available on reasonable terms or will be sufficient in amount to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage or changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, results of operations and financial condition.

Our failure to anticipate rapid changes in technology may negatively affect demand for our services in the marketplace.

Our success will depend, in part, on our ability to develop and implement business and technology solutions that anticipate rapid and continuing changes in technology, industry standards and client preferences. We may not be successful in anticipating or responding to these developments on a timely basis, which may negatively affect demand for our solutions in the marketplace. Also, if our competitors respond faster than we do to changes in technology, industry standards and client preferences, we may lose business and our services may become less competitive or obsolete. Any one or a combination of these circumstances could have a material adverse effect on our ability to obtain and successfully complete client engagements.

Interruptions or delays in service from our third-party providers could impair our global delivery model, which could result in client dissatisfaction and a reduction of our revenue.

We depend upon third parties to provide a high-speed network of active voice and data communications 24 hours per day and various satellite and optical links between our global delivery centers and our clients. Consequently, the occurrence of a natural disaster or other unanticipated problems with the equipment or at the facilities of these third-party providers could result in unanticipated interruptions in the delivery of our services. For example, we may not be able to maintain active voice and data communications between our global delivery centers and our clients' sites at all times due to disruptions in these networks, system failures or virus attacks. Any significant loss in our ability to communicate or any impediments to any IT professional's ability to provide services to our clients could result in a disruption to our business, which could hinder our performance or our ability to complete client projects in a timely manner. This, in turn, could lead to substantial liability to our clients, client dissatisfaction, loss of revenue and a material adverse effect on our business, our operating results and financial condition. We cannot assure you that our business interruption insurance will adequately compensate our clients or us for losses that may occur. Even if covered by insurance, any failure or breach of security of our systems could damage our reputation and cause us to lose clients.

Some of our client contracts contain restrictions or penalty provisions that, if triggered, could result in lower future revenue and decrease our profitability.

We have entered in the past, and may in the future enter, into contracts that contain restrictions or penalty provisions that, if triggered, may adversely affect our operating results. For instance, some of our client contracts provide that, during the term of the contract and for a certain period thereafter ranging from six to twelve months, we may not use the same personnel to provide similar services to any of the client's competitors. This restriction may hamper our ability to compete for and provide services to clients in the same industry. In addition, some contracts contain provisions that would require us to pay penalties or liquidated damages to our clients if we do not meet pre-agreed service level requirements. If any of the foregoing were to occur, our future revenue and profitability under these contracts could be materially harmed.

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

Under a majority 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 greater of an agreed amount or 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 or liability for breaches of confidentiality, are generally not limited under those agreements. Our agreements are governed by laws of multiple jurisdictions, therefore the interpretation of such provisions, and the availability of defenses to us, may vary, which may contribute to the uncertainty as to the scope of our potential liability. 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.

Our services may infringe on the intellectual property rights of others, which may subject us to legal liability, harm our reputation, prevent us from offering some services to our clients or distract management.

We cannot be sure that our services or the deliverables that we develop and create for our clients do not infringe on the intellectual property rights of third parties and infringement claims may be asserted against us or our clients. As the number of patents, copyrights and other intellectual property rights in our industry increase, we believe that companies in our industry will face more frequent infringement claims. These claims may harm our reputation, distract management, increase costs and prevent us from offering some services to our clients. Historically, we have generally agreed to indemnify our clients for all expenses and liabilities resulting from infringement of intellectual property rights of third parties based on the services and deliverables that we have performed and provided to our clients. In some instances, the amount of these indemnities may be greater than the revenue we receive from the client. In addition, as a result of intellectual property litigation, we may be required to stop selling, incorporating or using products that use or incorporate the infringed intellectual property. We may be required to obtain a license or pay a royalty to make, sell or use the relevant technology from the owner of the infringed intellectual property. Such licenses or royalties may not be available on commercially reasonable terms, or at all. We may also be required to redesign our services or change our methodologies so as not to use the infringed intellectual property, which may not be technically or commercially feasible and may cause us to expend significant resources. Subject to certain limitations, under our indemnification obligations to our clients, we may also have to provide refunds to our clients to the extent that we must require them to cease using an infringing deliverable if we are unable to provide a work-around or acquire a license to permit use of the infringing deliverable that we had provided to them as part of a service engagement. If we are obligated to make any such refunds or dedicate time to provide alternatives or acquire a license to the infringing intellectual property, our business and financial condition could be materially adversely affected.

The loss of key members of our senior management team may prevent us from executing our business strategy.

Our future success depends to a significant extent on the continued service and performance of key members of our senior management team. Our growth and success depends to a significant extent on our ability to retain Kris Canekkeratne, our chief executive officer, who is a founder of our company and has led the growth, operation, culture and strategic direction of our business since its inception. The loss of his services or the services of other key members of our senior management could seriously harm our ability to execute our business strategy. Although we have entered into agreements with our executive officers providing for severance and change in control benefits to them, each of our executive officers or other key employees could terminate employment with us at any time. We also may have to incur significant costs in identifying, hiring, training and retaining replacements for key employees. The loss of any member of our senior management team might significantly delay or prevent the achievement of our business or

development objectives and could materially harm our business. We do not maintain key man life insurance on any of our team members.

Risks related to our Indian and Sri Lankan operations

Political instability or changes in the central or state governments in India could result in the change of several policies relating to foreign direct investment and repatriation of capital and dividends. Further, changes in the monetary and economic policies could adversely affect economic conditions in India generally and our business in particular.

We have subsidiaries in India and a significant portion of our business, fixed assets and human resources are located in India. As a result, our business is affected by foreign exchange rates and controls, interest rates, local regulations, changes in government policy, taxation, social and civil unrest and other political, economic or other developments in or affecting India. Since 1991, successive Indian governments have pursued policies of economic liberalization. In the past, the Indian economy has experienced many of the problems that commonly confront the economies of developing countries, including high inflation, erratic gross domestic product growth and shortages of foreign exchange. The Indian government has exercised, and continues to exercise, significant influence over many aspects of the Indian economy and Indian government actions concerning the economy could have a material adverse effect on private sector entities like us. In the past, the Indian government has provided significant tax incentives and relaxed certain regulatory restrictions in order to encourage foreign investment in specified sectors of the economy, including the software development services industry. Programs that have benefited us include, among others, tax holidays, liberalized import and export duties and preferential rules on foreign investment. Notwithstanding these benefits, as noted above, India's central and state governments remain significantly involved in the Indian economy as regulators. In recent years, the Indian government has introduced non-income related taxes, including the fringe benefit tax (which was repealed as of April 1, 2009) and General Sales Taxes ("GST"), and income-related taxes, including the Minimum Alternative Tax. In addition, a change in government leadership in India or change in policies of the existing government in India that results in the elimination of any of the benefits realized by us from our Indian operations or the imposition of new taxes applicable to such operations could have a material adverse effect on our business, results of operations and financial condition. For instance, certain changes to the application of the Minimum Alternative Tax with respect to Special Economic Zone ("SEZ") units may negatively impact our cash flows and other benefits enjoyed by us which could have a material adverse effect on our business, results of operations and financial condition.

Changes in the policies or political stability of the government of Sri Lanka could adversely affect economic conditions in Sri Lanka, which could adversely affect our business.

Our subsidiary in Sri Lanka has been approved as an export computer software developer by the Board of Investment ("BOI") in Sri Lanka, which is a statutory body organized to facilitate foreign investment into Sri Lanka and grant concessions and benefits to entities with which it has entered into agreements. Pursuant to our current agreement with the BOI, our Sri Lankan subsidiary is entitled to an exemption from income taxation on export revenue for a period of 12 years expiring on March 31, 2019 provided that certain job creation and retention requirements were met by March 31, 2017. We believe we have achieved the job criteria and have notified the BOI. The BOI, on review, could challenge our hiring commitments in which case we would have to forego part of the 12 year tax holiday. Further, government policies relating to taxation other than on income would also have an impact on the subsidiary, and the political, economic or social factors in Sri Lanka may affect these policies. Historically, past incumbent governments have followed policies of economic liberalization. However, we cannot assure you that the current government or future governments will continue these liberal policies.

Regional conflicts or terrorist attacks and other acts of violence or war in the United States, the United Kingdom, India, Sri Lanka, or other regions could adversely affect financial markets, resulting in loss of client confidence and our ability to serve our clients which, in turn, could adversely affect our business, results of operations and financial condition.

The Asian region has from time to time experienced instances of civil unrest and hostilities among neighboring countries, including between India and Pakistan. Since May 1999, military confrontations between India and Pakistan have occurred in Kashmir. Also, there have been military hostilities and civil unrest in Iraq and Afghanistan. Terrorist attacks, such as the ones that occurred in Brussels in March 2016, Paris in November 2015, Boston on April 15, 2013, New York and Washington, D.C., on September 11, 2001, New Delhi on December 13, 2001, Bali on October 12, 2002, London on July 7, 2005, and Mumbai on November 26, 2008, civil or political unrest and military hostilities in Sri Lanka and other acts of violence or war, including those involving India, Sri Lanka, the United States, the United Kingdom or other countries, may adversely affect U.S., U.K. and worldwide financial markets. Prospective clients may wish to visit several of our facilities, including our global delivery centers in India or Sri Lanka, prior to reaching a decision on vendor selection. Terrorist threats, attacks and international conflicts could make travel more difficult and cause potential clients to delay, postpone or cancel decisions to use our services. In addition, such attacks may have an adverse impact on our ability to operate effectively and interrupt lines of communication and restrict our offshore resources from traveling onsite to client locations, effectively curtailing our ability to deliver our services to our clients. These obstacles may increase our expenses and negatively affect our operating results. In addition, military activity, terrorist attacks, political tensions between India and Pakistan and, historically, conflicts within Sri Lanka, despite the current cessation of hostilities, could create a greater perception that the acquisition of services from companies with significant Indian or Sri Lankan operations involves a higher degree of risk that could adversely affect client confidence in India or Sri Lanka as a software development center, each of which would have a material adverse effect on our business.

Our net income may decrease if the governments of the United States, the United Kingdom, the Netherlands, India, Sri Lanka, Germany, Singapore, Sweden or Hungary adjust the amount of our taxable income by challenging our transfer pricing policies.

Our subsidiaries conduct intercompany transactions among themselves and with the U.S. parent company on an arm's-length basis in accordance with U.S. and local country transfer pricing regulations. The jurisdictions in which we operate could challenge our determination of arm's-length profit and issue tax assessments. Although the United States has income tax treaties with most countries in which we have operations, which should alleviate the risk of double taxation, the costs to appeal any such tax assessment and potential interest and penalties could decrease our earnings and cash flows.

The Indian taxing authorities issued assessment orders for the fiscal years ended March 31, 2004 to March 31, 2014 of our Indian subsidiary, Virtusa (India) Private Limited, now merged with and into our affiliate, Virtusa Consulting Services Private Limited and Virtusa Software Services Private Limited (referred to as "Virtusa India"). At issue in these assessments were several matters, the most significant of which was the redetermination of the arm's-length profit related to intercompany transactions. For fiscal year ended March 31, 2004 and 2005, we contested both assessments and also filed appeals with Indian tax authorities and U.S. Competent Authorities. Although we have settled certain tax obligations for the fiscal years ended March 31, 2004 and 2005, we have appealed certain other tax related matters affecting our fiscal year ended March 31, 2004 and 2005 with the Indian tax authorities. During the fiscal year ended March 31, 2005, we have appealed the redetermination of arm length pricing for transactions with our U.K. subsidiary. Although we have successfully resolved some issues we continue to appeal several other fiscal years' assessments with the Indian tax authorities. If we do not prevail in our appeals, we may incur an additional legal liability and obligations to pay additional interest, penalties and costs related to such matters.

Our net income may decrease if the governments of India or Sri Lanka levy new taxes or reduce or withdraw tax benefits and other incentives provided to us.

Virtusa India is an export-oriented company under the Indian Income Tax Act of 1961 and is entitled to claim tax exemption for each Software Technology Park (“STP”), which it operates. Virtusa India historically has operated STPs in Hyderabad and in Chennai. The income tax benefits of the STP in Hyderabad and Chennai expired on March 31, 2010 and 2011, respectively. Historically, however, substantially all of the earnings of both STPs qualified as tax- exempt export profits. Although we believe we have complied with and were eligible for the STP holidays, the government of India may deem us ineligible for the STP holiday or make adjustments to the profit level in previous tax years, subject to the applicable statute of limitations, which could result in additional legal liability, including obligations to pay additional taxes, penalties, interest and other costs arising out of such matter. For instance, the Indian taxing authorities issued an assessment order for the fiscal years ended March 31, 2007 against Virtusa India related to the denial of all STP benefits for our Chennai STP on the basis that the STP was formed by the splitting up or the reconstruction of our Hyderabad STP. This matter is currently pending before the High Court of Hyderabad. We have filed appeals with the appropriate Indian tax authorities to appeal other years. We may incur additional legal liability and obligations to pay additional interest, penalties and costs related to such matter. We have appealed such assessments but we can make no assurance that our appeals will be successful.

We have located most of our Indian operations in areas designated as a SEZ, under the SEZ Act of 2005. In particular, we are continuing our build out of a facility on a 6.3 acre parcel of land in Hyderabad, India that has been designated as a SEZ. In addition, we have leased space and operate in SEZ designated locations in Bangalore, Pune and Chennai, India. Although our profits from the SEZ operations would be eligible for certain income tax exemptions for a period up to 15 years, we may not be able to take full advantage of the tax holidays in each SEZ if we are not able to grow our operations, including the hiring of IT professionals into the SEZ facilities, and there is no guarantee that we will secure SEZ status for any other future locations in India. Additionally, the government of India may deem us ineligible for a SEZ holiday or make adjustments to the transfer pricing profit levels resulting in an overall increase in our effective tax rate.

In addition, our Sri Lankan subsidiary, Virtusa Private Ltd. (“Virtusa SL”), was approved as an export computer software developer by the BOI in 1998 and has been granted a tax holiday. Virtusa SL has negotiated various extensions and new arrangements of the original holiday period in exchange for further capital investments in Sri Lanka facilities. The most recent 12-year tax holiday agreement, which is set to expire on March 31, 2019, requires that we meet certain new job creation, retention and investment criteria. As of March 31, 2018, we believe we have met the job creation target. We have submitted the required details to BOI and are awaiting their confirmation. At March 31, 2018, we were eligible for the entire 12-year tax holiday. Further, the Sri Lankan Department of Inland Revenue has challenged the eligibility of the initial year of our granted tax holiday. This challenge was affirmed by the Tax Appeals Commission based on their judgment that we did not meet the required investment commitments. However, during the fiscal year ended March 31, 2015, we received notice from the BOI certifying the tax holiday for all previously claimed years, including the initial year under challenge. If any such tax assessment were ruled against us, such a ruling may materially harm our business, operating results, and financial results and materially reduce our profitability.

Wage pressures and increases in government mandated benefits in India and Sri Lanka may reduce our profit margins.

Wage costs in India and Sri Lanka have historically been significantly lower than wage costs in the United States and Europe for comparably-skilled professionals. However, wages in India and Sri Lanka are increasing, which will result in increased costs for IT professionals, particularly project managers and other mid-level professionals. We may need to increase the levels of our team member compensation more

rapidly than in the past to remain competitive without the ability to make corresponding increases to our billing rates. Compensation increases may reduce our profit margins, make us less competitive in pricing potential projects against those companies with lower cost resources and otherwise harm our business, operating results and financial condition.

In addition, we contribute to benefit funds covering our employees in India and Sri Lanka as mandated by the Indian and Sri Lankan governments. Benefits are based on the team members' years of service and compensation. If the governments of India and/or Sri Lanka were to legislate increases to the benefits required under these plans or mandate additional benefits, our profitability and cash flows would be reduced.

Our facilities are at risk of damage by earthquakes, tsunamis, flooding and climate change induced natural disasters

In December 2004, Sri Lanka and India were struck by multiple tsunamis that devastated certain areas of both countries. Our Indian and Sri Lankan facilities are also located in regions that are susceptible to tsunamis. Flooding and other natural disasters related to climate change may increase the risk of disruption of information systems and telephone services for sustained periods. In the recent past, Chennai and Sri Lanka have both been affected by floods. In December 2015, Chennai, India suffered one of the worst flooding and rains in the history of Chennai which shut down our facilities, had a negative impact on our operations and client engagements, and triggered our business continuity plans where we tried to mitigate the impact to our clients, employees and our business. In 2016 and 2017, Sri Lanka was affected by floods, which did not impact our operations directly, but did impact our employees. Damage or destruction that interrupts our ability to deliver our services could damage our relationships with our clients and may cause us to incur substantial additional expenses to repair or replace damaged equipment or facilities. Our insurance coverage may not be sufficient to cover all such expenses. Furthermore, we may be unable to secure such insurance coverage or to secure such insurance coverage at premiums acceptable to us in the future. Prolonged disruption of our services as a result of natural disasters may cause our clients to terminate their contracts with us and may result in project delays, project cancellations and loss of substantial revenue to us. Prolonged disruptions may also harm our team members or cause them to relocate, which could have a material adverse effect on our business.

The laws of India and Sri Lanka do not protect intellectual property rights to the same extent as those of the United States and we may be unsuccessful in protecting our intellectual property rights. Unauthorized use of our intellectual property rights may result in loss of clients and increased competition.

Our success depends, in part, upon our ability to protect our proprietary methodologies, trade secrets and other intellectual property. We rely upon a combination of trade secrets, confidentiality policies, non-disclosure agreements, other contractual arrangements and copyright, patent, and trademark laws to protect our intellectual property rights. However, existing laws of India and Sri Lanka do not provide protection of intellectual property rights to the same extent as provided in the United States. The steps we take to protect our intellectual property may not be adequate to prevent or deter infringement or other unauthorized use of our intellectual property. Thus, we may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights. Our competitors may be able to imitate or duplicate our services or methodologies. The unauthorized use or duplication of our intellectual property could disrupt our ongoing business, distract our management and team members, reduce our revenue and increase our costs and expenses. We may need to litigate to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could be extremely time-consuming and costly and could materially adversely impact our business.

Risks related to our common stock

The market price of our common stock may fluctuate significantly.

The market price of our common stock has at times experienced substantial price volatility as a result of 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, also has experienced extreme price and volume fluctuations that have affected the market price of the common stock of many technology companies in ways that may have been unrelated to such companies' operating performance. Furthermore, we believe the market price of our common stock should reflect future growth and profitability expectations. If we fail to meet these expectations, the market price of our common stock may significantly decline.

In addition, there are many other factors that may cause the market price of our common stock to fluctuate, including:

- actual or anticipated variations in our quarterly operating results, including fluctuations resulting from changes in foreign exchange rates or acquisitions by us, or the quarterly financial results of companies perceived to be similar to us
- deterioration and decline in general economic, industry and/or market conditions
- announcements of technological innovations or new services by us or our competitors
- changes in estimates of our financial results or recommendations by market analysts
- announcements by us or our competitors of significant projects, contracts, acquisitions, strategic alliances or joint ventures
- changes in our capital structure, such as future issuances of securities or the incurrence of additional debt
- regulatory developments in the United States, the United Kingdom, India, Sri Lanka or other countries in which we operate or have clients
- litigation involving our company, our general industry or both
- additions or departures of key team members
- investors' general perception of us
- changes in the market valuations of other IT service providers

If any of the foregoing occurs or continues to occur, it could cause our stock price to fall and may expose us to securities class action litigation. Any securities class action litigation could result in substantial costs and the diversion of management's attention and resources. Many of these factors are beyond our control.

Provisions in our charter documents and under Delaware law may prevent or delay a change of control of us and could also limit the market price of our common stock.

Certain provisions of Delaware law and of our certificate of incorporation and by-laws could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of us, even if such a change in control would be beneficial to our stockholders or result in a premium for your shares of our common stock. These provisions may also

prevent or frustrate attempts by our stockholders to replace or remove our management. These provisions include:

- a classified board of directors
- limitations on the removal of directors
- advance notice requirements for stockholder proposals and nominations
- the inability of stockholders to act by written consent or to call special meetings
- the ability of our board of directors to make, alter or repeal our by-laws

The affirmative vote of the holders of at least 75% of our shares of capital stock entitled to vote is necessary to amend or repeal the above provisions that are contained in our certificate of incorporation. In addition, our board of directors has the ability to designate the terms of and issue new series of preferred stock without stockholder approval. Also, absent approval of our board of directors, our by-laws may only be amended or repealed by the affirmative vote of the holders of at least 75% of our shares of capital stock entitled to vote.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which limits business combination transactions with stockholders of 15% or more of our outstanding voting stock that our board of directors has not approved. These provisions and other similar provisions make it more difficult for stockholders or potential acquirers to acquire us without negotiation. These provisions may apply even if some stockholders may consider the transaction beneficial to them.

These provisions could limit the price that investors are willing to pay in the future for shares of our common stock. These provisions might also discourage a potential acquisition proposal or tender offer, even if the acquisition proposal or tender offer is at a premium over the then current market price for our common stock.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal executive offices are located in Southborough, Massachusetts where we lease approximately 12,120 square feet for a term expiring July 31, 2028.

We both own and lease facilities to support our operations. At March 31, 2018, we leased 863,567 square feet and owned 922,150 square feet in four countries to deliver services globally to our clients, as set forth in the table below:

<u>Country</u>	<u>Number of Locations</u>	<u>Square Footage Leased</u>	<u>Square Footage Owned</u>	<u>Total Square Footage</u>	<u>Lease period</u>
India	19	503,028	922,150	1,425,178	1 - 8 years
United states	12	173,502	—	173,502	1 - 11 years
Sri Lanka	5	176,608	—	176,608	1 - 5 years
Singapore	1	10,429	—	10,429	1 - 5 years
Total	<u>37</u>	<u>863,567</u>	<u>922,150</u>	<u>1,785,717</u>	

In March 2008, we entered into a 99-year lease, as amended in August 2008, with an option for an additional 99 years for approximately 6.3 acres of land in Hyderabad, India, where we have built a campus of approximately 325,000 square feet, and in relation with the Polaris acquisition we own 597,150 square feet in India which is also listed in the above table under “Square Footage Owned”.

We have sales and business development offices located in New York, Chicago, the United Kingdom, Germany, Austria, Japan, United Arab Emirates, Switzerland, Hong Kong, the Netherlands, Australia and New Zealand. We also have sales and delivery offices in Sweden, New Jersey, Indianapolis, Ohio, Tampa, Windsor, Connecticut, Canada, Hungary, and Malaysia. These leases vary in duration and have expiration dates ranging from one year to eleven years.

We believe that our existing and planned facilities are adequate to support our existing operations and that, as needed, we will be able to obtain suitable additional facilities on commercially reasonable terms.

Item 3. *Legal Proceedings.*

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of our management, the outcome of such claims and legal actions, if decided adversely, is not currently expected to have a material adverse effect on our operating results, cash flows or consolidated financial position.

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 “VRTU”. The following table sets forth, for the periods indicated, the high and low sale prices for our common stock during our fiscal years ended March 31, 2018 and March 31, 2017, respectively, as reported on the Nasdaq Global Select Market.

	<u>High</u>	<u>Low</u>
Fiscal 2017:		
First quarter	\$38.31	\$27.57
Second quarter	\$29.73	\$20.74
Third quarter	\$25.37	\$18.03
Fourth quarter	\$34.92	\$24.84
Fiscal 2018:		
First quarter	\$33.06	\$25.72
Second quarter	\$38.31	\$28.45
Third quarter	\$48.71	\$34.79
Fourth quarter	\$52.88	\$39.77

As of May 22, 2018, there were approximately 29,681,942 shares of our common stock outstanding held by approximately 99 stockholders of record and the last reported sale price of our common stock on the Nasdaq Global Select Market on May 22, 2018 was \$48.93 per share.

Dividend Policy

We have never declared or paid any cash dividends on our common stock. We currently expect to retain future earnings, if any, to finance the growth and development of our business and we do not anticipate paying any cash dividends in the foreseeable future. We intend to permanently reinvest our foreign earnings. Our line of credit with a bank could restrict, or our terms of convertible preferred stock could impair, our ability to declare or make any dividends or similar distributions.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

Except for sales of unregistered securities that have been previously reported by the Company in either its quarterly reports on Form 10-Q or current reports on Form 8-K, there were no sales of unregistered securities of the Company during the period covered by this Report.

Issuer Purchases of Equity Securities

Under the terms of our 2007 Stock Option and Incentive Plan (“2007 Plan”) and 2015 Stock Option and Incentive Plan (“2015 Plan”), we have issued shares of restricted stock to our employees. On the date that these restricted shares vest, we automatically withhold, via a net exercise provision pursuant to our applicable restricted stock agreements and the 2007 Plan and 2015 Plan, as the case may be, the number of vested shares (based on the closing price of our common stock on such vesting date) equal to tax liability owed by such grantee. The shares withheld from the grantees under the 2007 Plan or the 2015 Plan, as the case may be, to settle their tax liability are reallocated to the number of shares available for issuance under the 2015 Plan. For the three month period ended March 31, 2018, we withheld an aggregate of 92,966 shares of restricted stock at a price of \$47.53 per share.

Item 6. Selected Financial Data.

The selected historical financial data set forth below at March 31, 2018 and 2017 and for the fiscal years ended March 31, 2018, 2017 and 2016 are derived from our consolidated financial statements which are included elsewhere in this Annual Report on Form 10-K. The selected historical financial data at March 31, 2016, 2015 and 2014 and for the fiscal years ended March 31, 2015 and 2014 are derived from our consolidated financial statements which are not included elsewhere in this Annual Report. The following selected consolidated financial data should be read in conjunction with our consolidated financial statements, the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Annual Report. The historical results are not necessarily indicative of the results to be expected for any future period.

Consolidated statements of income data

	Fiscal Year Ended March 31,				
	2018	2017	2016	2015	2014
	(In thousands, except share and per share amounts)				
Revenue	\$ 1,020,669	\$ 858,731	\$ 600,302	\$ 478,986	\$ 396,933
Costs of revenue	725,445	620,950	389,310	304,422	250,533
Gross profit	295,224	237,781	210,992	174,564	146,400
Operating expenses	248,837	219,410	165,672	121,996	103,988
Income from operations	46,387	18,371	45,320	52,568	42,412
Other income (expense)	(4,551)	447	12,349	4,832	3,512
Income before income tax expense	41,836	18,818	57,669	57,400	45,924
Income tax expense	32,888	2,561	12,649	14,954	11,549
Net income	8,948	16,257	45,020	\$ 42,446	\$ 34,375
Less: Net income attributable to the noncontrolling interests, net of tax	7,694	4,399	218	—	—
Net income available to Virtusa stockholders	\$ 1,254	\$ 11,858	\$ 44,802	\$ 42,446	\$ 34,375
Less: Series A Convertible Preferred Stock dividends and accretion	3,963	—	—	—	—
Net income (loss) available to Virtusa common stockholders	\$ (2,709)	\$ 11,858	\$ 44,802	\$ 42,446	\$ 34,375
Basic earnings (loss) per share available to Virtusa common stockholders	\$ (0.09)	\$ 0.40	\$ 1.53	\$ 1.48	\$ 1.32
Diluted earnings (loss) per share available to Virtusa common stockholders	\$ (0.09)	\$ 0.39	\$ 1.49	\$ 1.44	\$ 1.27
Weighted average number of common shares outstanding					
Basic	29,397,350	29,650,026	29,233,861	28,753,102	26,116,516
Diluted	29,397,350	30,215,171	30,004,982	29,555,624	26,973,001

Consolidated balance sheets data

	At March 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Cash and cash equivalents	\$ 194,897	\$144,908	\$148,986	\$124,802	\$ 82,761
Working capital	\$ 332,635	\$354,480	\$387,515	\$286,034	\$193,319
Total assets	\$1,113,180	\$923,420	\$980,012	\$489,737	\$449,425
Long-term debt, less current portion	\$ 288,227	\$176,722	\$185,633	—	—
Series A Convertible Preferred Stock	\$ 106,996	—	—	—	—
Noncontrolling interests	\$ 17,460	\$ 87,984	\$152,942	—	—
Virtusa stockholders' equity	\$ 418,623	\$497,032	\$475,013	\$423,775	\$374,070

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

The following discussion and analysis of our financial condition and results of our operations should be read together with our consolidated financial statements and related notes to consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The following discussion contains forward-looking statements. Actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ materially from those projected in the forward-looking statements include, but are not limited to, those discussed in “Risk Factors” and elsewhere in this Annual Report.

Business overview

Virtusa Corporation (the “Company”, “Virtusa”, “we”, “us” or “our”) is a global provider of digital engineering and information technology (“IT”) outsourcing services that accelerate business outcomes for our clients. We support Forbes Global 2000 clients across large, consumer facing industries like banking, financial services insurance healthcare, communications, and media and entertainment, as these clients seek to improve their business performance through accelerating revenue growth, delivering compelling consumer experiences, improving operational efficiencies, and lowering overall IT costs. We provide services across the entire spectrum of the IT services lifecycle, from strategy and consulting, to technology and user experience (“UX”) design, development of IT applications, systems integration, testing and business assurance, and maintenance and support services, including infrastructure and managed services. We help our clients solve critical business problems by leveraging a combination of our distinctive consulting approach, unique platforming methodology, and deep domain and technology expertise. Our services enable our clients to accelerate business outcomes by consolidating, rationalizing and modernizing their core customer-facing processes into one or more core systems. We deliver cost-effective solutions through a global delivery model, applying advanced methods such as Agile, an industry standard technique designed to accelerate application development. We also use our consulting methodology, which we refer to as Accelerated Solution Design (“ASD”), which is a collaborative decision-making and design process performed with the client, to ensure our solutions meet the client’s specifications and requirements. Our industry leading business transformational solutions combine deep domain expertise with our strengths in software engineering and business consulting to support our clients’ business imperative initiatives across business growth and IT operations.

Headquartered in Massachusetts, we have offices in the United States, Canada, the United Kingdom, the Netherlands, Germany, Switzerland, Sweden, Austria, the United Arab Emirates, Hong Kong, Japan, Australia and New Zealand, with global delivery centers in India, Sri Lanka, Hungary, Singapore and Malaysia, as well as near shore delivery centers in the United States.

To strengthen our digital engineering capabilities and establish a solid base in Silicon Valley, on March 12, 2018, we entered into an equity purchase agreement by and among the Company, eTouch Systems Corp. (“eTouch US”) and each of the equity holders of eTouch US to acquire all of the outstanding shares of eTouch US, and certain of the Company’s Indian subsidiaries entered into an share purchase agreement by and among those Company subsidiaries, eTouch Systems (India) Pvt. Ltd (“eTouch India,” together with eTouch US, “eTouch”) and the equityholders of eTouch India to acquire all of the outstanding shares of eTouch India.

Under the terms of the equity purchase agreement and the share purchase agreement, on March 12, 2018, we acquired all of the outstanding shares of eTouch US and eTouch India for approximately \$140.0 million in cash, subject to certain adjustments, with up to an additional \$15.0 million set aside for retention bonuses to be paid to eTouch management and key employees, in equal installments on the first and second anniversary of the transaction. The purchase price will be paid in three tranches with \$80.0 million paid at closing, \$42.5 million on the 12-month anniversary of the close of the transaction, and

\$17.5 million on the 18-month anniversary of the close of the transaction, subject in each case to certain adjustments.

On March 3, 2016, to create a unique, fully integrated provider of comprehensive solutions and services across the banking and financial services industry, expand our addressable market, and enable us to pursue larger consulting and outsourcing contracts, our Indian subsidiary acquired approximately 51.7% of the fully diluted shares of Polaris Consulting & Services Limited (“Polaris”) for approximately \$168.3 million in cash (the “Polaris Transaction”) pursuant to a share purchase agreement dated as of November 5, 2015, by and among our Indian subsidiary, Polaris and the promoter sellers named therein. On April 6, 2016, in connection with the Polaris Transaction, we completed an unconditional mandatory open offer (the “Mandatory Tender Offer”) to purchase an additional 26% of the fully diluted outstanding shares of Polaris from Polaris’ public shareholders for an aggregate purchase price of approximately \$89.1 million (Indian rupees 5,935 million). Upon the closing of the Mandatory Tender Offer, our ownership interest in Polaris increased from approximately 51.7% to 77.7% of Polaris’ fully diluted shares outstanding, and from approximately 52.9% to 78.8% of Polaris’ basic shares outstanding. In order to comply with the applicable Indian rules on takeovers, during the three months ended December 31, 2016, we sold 3.7% of our shares of Polaris common stock through a public offering for approximately \$7.6 million in proceeds, net of \$0.2 million in brokerage fees and taxes, which reduced our ownership interest in Polaris from 78.6% to 74.9% of Polaris’ basic shares of common stock outstanding.

In connection with our acquisition of Polaris, on October 26, 2017, we announced our intention to commence through our Indian subsidiary, a process that could lead to the delisting of our Indian subsidiary, Polaris, from all stock exchanges on which Polaris’ common shares are listed. On February 12, 2018, we consummated the Polaris delisting offer with respect to the public shareholders of Polaris in accordance with the provisions of the SEBI Delisting Regulations, which resulted in an accepted exit price of INR 480 per share (“Exit Price”), for an aggregate consideration of approximately \$145.0 million, exclusive of transaction and closing costs, resulting in Virtusa India increasing its ownership interest in Polaris from approximately 74% to approximately 93% of the share capital of Polaris. Upon receipt of final approvals from the stock exchanges on which Polaris is traded, the common shares of Polaris will be delisted from all public exchanges on which the Polaris shares are traded. For a period of one year following the date of the delisting from all stock exchanges on which Polaris common shares are listed, Virtusa India will permit, in compliance with SEBI Delisting Regulations, the public shareholders of Polaris to tender their shares for sale to Virtusa India at the Exit Price. If all the remaining shares of Polaris are tendered at the Exit Price, we would pay an additional consideration of approximately \$56.0 million.

In connection with, and as part of the Polaris acquisition, on November 5, 2015, we entered into an amendment with Citigroup Technology, Inc. (“Citi”) and Polaris, which became effective upon the closing of the Polaris Transaction, pursuant to which, (i) Citi agreed to appoint the Company and Polaris as a preferred vendor for Global Technology Resource Strategy (“GTRS”) for the provision of IT services to Citi on an enterprise wide basis (“GTRS Preferred Vendor”), (ii) the Company agreed to certain productivity savings and associated reduced spend commitments for a period of two years, which, if not achieved, would require the Company to provide certain minimum discounts to Citi (which is now satisfied), (iii) the parties amended Polaris’ master services agreement with Citi such that the Company would also be deemed a contracting party and the Company would assume, and agree to perform, or cause Polaris to perform, all applicable obligations under the master services agreement, as amended by the amendment (the “Citi/Virtusa MSA”), and (iv) Virtusa agreed to terminate Virtusa’s existing master services agreement with Citi, and have the Citi/Virtusa MSA be the sole surviving agreement.

In support of the delisting transaction and the eTouch acquisition, on February 6, 2018, we entered into a \$450.0 million credit agreement (“Credit Agreement”) with a syndicated bank group jointly lead by JP Morgan Chase Bank, N.A. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, which amends and restates our prior \$300.0 million credit agreement (which we had originally entered into on February 25,

2016 (“Prior Credit Agreement”) to fund the Polaris acquisition and Mandatory Tender Offer) and provides for a \$200.0 million revolving credit facility, a \$180.0 million term loan facility, and a \$70.0 million delayed-draw term loan. We drew down \$180.0 million under the term loan of the Credit Agreement and \$55.0 million under the revolving credit facility under the Credit Agreement to repay in full the amount outstanding under the Prior Credit Agreement and fund the Polaris delisting transaction. On March 12, 2018, we drew down the \$70 million delayed draw to fund the eTouch acquisition. Interest under this new credit facility accrues at a rate per annum of LIBOR plus 3.0%, subject to step-downs based on the Company’s ratio of debt to EBITDA. We intend to enter into an interest rate swap agreement to minimize interest rate exposure. The Credit Agreement includes maximum debt to EBITDA and minimum fixed charge coverage covenants. The term of the Credit Agreement is five years, ending February 6, 2023 (see Note 11 to the Consolidated Financial Statements for further information). As of March 31, 2018, the outstanding amount under the Credit Agreement was \$305.0 million.

On May 3, 2017, we entered into an investment agreement with The Orogen Group (“Orogen”) pursuant to which Orogen purchased 108,000 shares of the Company’s newly issued Series A Convertible Preferred Stock, initially convertible into 3,000,000 shares of common stock, for an aggregate purchase price of \$108 million with an initial conversion price of \$36.00 (the “Orogen Preferred Stock Financing”). In connection with the investment, Vikram S. Pandit, the former CEO of Citigroup, was appointed to Virtusa’s Board of Directors. Orogen is a new operating company that was created by Vikram Pandit and Atairos Group, Inc., an independent private company focused on supporting growth-oriented businesses, to leverage the opportunities created by the evolution of the financial services landscape and to identify and invest in financial services companies and related businesses with proven business models.

Under the terms of the investment, the Series A Convertible Preferred Stock has a 3.875% dividend per annum, payable quarterly in additional shares of common stock and/or cash at our option. If any shares of Series A Convertible Preferred Stock have not been converted into common stock prior to May 3, 2024, the Company will be required to repurchase such shares at a repurchase price equal to the liquidation preference of the repurchased shares plus the amount of accumulated and unpaid dividends thereon. If we fail to effect such repurchase, the dividend rate on the Series A Convertible Preferred Stock will increase by 1% per annum and an additional 1% per annum on each anniversary of May 3, 2024 during the period in which such failure to effect the repurchase is continuing, except that the dividend rate will not increase to more than 6.875% per annum.

In connection with the investment, we repaid \$81 million of our outstanding term loan under our Prior Credit Agreement, and our board of directors approved the repurchase of approximately \$30 million of our common stock.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Acts (the “Tax Act”). The Tax Act contains several key tax provisions that will impact the Company, including the reduction of the corporate income tax rate to 21% effective January 1, 2018. The Tax Act also includes a variety of other changes, such as a one-time repatriation tax on accumulated foreign earnings, a limitation on the tax deductibility of interest expense, acceleration of business asset expensing, and reduction in the amount of executive pay that could qualify as a tax deduction, among others. (See Note 14 to the Consolidated Financial Statements for further information)

At March 31, 2018, we had 20,491 employees, or team members, an increase from 17,750 at March 31, 2017. For the fiscal year ended March 31, 2018, we had revenue of \$1,020.7 million and income from operations of \$46.4 million. In our fiscal year ended March 31, 2018, our revenue increased by \$161.9 million, or 18.9%, to \$1,020.7 million, as compared to \$858.7 million in our fiscal year ended March 31, 2017. Our net income decreased from \$11.9 million in our fiscal year ended March 31, 2017 to a net loss of \$(2.7) million in our fiscal year ended March 31, 2018.

The key drivers of the increase in revenue in our fiscal year ended March 31, 2018, as compared to our fiscal year ended March 31, 2017, were as follows:

- Broad based growth, particularly in our top ten clients
- Broad revenue growth in our industry groups, particularly banking and telecommunications
- Revenue growth in all our geographies, led by Europe

The key drivers of our decrease in net income in our fiscal year ended March 31, 2018, as compared to our fiscal year ended March 31, 2017, were as follows:

- Substantial increase in income tax expense from the provisional impact of the Tax Act principally related to the repatriation tax and re-measurement of deferred tax assets;
- Substantial increase in foreign currency transaction losses, primarily due to depreciation of the Indian rupee against the U.S. dollar;

partially offset by:

- Higher revenue, particularly in our top ten clients, including accelerated growth in banking and telecommunications;
- Increase in gross profit due to higher revenue, and higher gross margin driven by significantly higher utilization;
- Decrease in operating expense as a percentage of revenue, reflecting a larger revenue base

High repeat business and client concentration are common in our industry. During the fiscal year ended March 31, 2018, 96% of our revenue was derived from clients who had been using our services for more than one year. Accordingly, our global account management and service delivery teams focus on expanding client relationships and converting new engagements to long-term relationships to generate repeat revenue and expand revenue streams from existing clients. We also have a dedicated business development team focused on generating engagements with new clients to continue to expand our client base and, over time, reduce client concentration.

For the fiscal years ended March 31, 2018, 2017 and 2016, we generated 56%, 59%, and 54%, respectively, of revenue from application outsourcing and 44%, 41% and 46%, respectively, of revenue from consulting services. We perform our services under both time-and-materials and fixed-price contracts. Revenue from fixed-price contracts was 41%, 43%, and 39% of total revenue for the fiscal years ended March 31, 2018, 2017 and 2016, respectively. The revenue earned from fixed-price contracts reflects our clients' preferences.

At March 31, 2018, we had cash and cash equivalents, short-term and long-term investments, which is a non-GAAP measure, of \$244.9 million, as compared to \$237.0 million at March 31, 2017.

From time to time, we have also supplemented organic revenue growth with acquisitions. These acquisitions have focused on adding domain expertise, expanding our professional services teams and expanding our client base. For instance, for the fiscal year ended March 31, 2018, we completed the acquisition of eTouch, which expands our digital solution offerings and for the fiscal year ended March 31, 2016, we acquired Polaris, which expanded our banking and financial services offerings and domain expertise as described above. We expect that for our long-term growth, from time to time, we will continue to seek evolving market opportunities through a combination of organic growth and acquisitions.

For the fiscal year ending March 31, 2019, we expect the following factors, among others, to affect our business and our operating results:

- Demand from our clients, particularly for transformational solutions and outsourcing services

- Ability to leverage our deep domain expertise to provide digital transformational solutions across our industry groups
- Impact of an increased effective income tax rate as a result of Tax Act
- Foreign currency volatility

For the fiscal year ending March 31, 2019, we plan to:

- Align our practices to provide digital transformation services across our core industry groups such as banking, financial services and insurance (“BFSI”), Communication and technology (“C&T”) and M&I
- Invest in domain-led transformational solutions within core verticals like banking, healthcare, insurance and telecommunications
- Continue our focus on client acquisition and expansion of revenue gained from existing clients, particularly our non-top ten clients
- Leverage our expertise in customer experience management, business process management, user interface (“UI”)/user experience (“UX”) and SAP
- Deepen our domain expertise in our service offerings related to enterprise mobile applications, social media, gamification, big data analytics, robotics process automation, and cloud computing
- Broaden our business and IT consulting and solutions capabilities related to our service offerings
- Continue to invest in our talent base, including new onsite campus recruitment programs
- Implement resource and operating optimization initiatives to continue to improve operating efficiencies
- Deepen our solution and service offerings across the software development lifecycle, including application support and maintenance and independent software quality-assurance
- Continue to invest in new and existing offshore delivery centers, as well as new geographies
- Pursue opportunistic acquisitions that would improve or broaden our overall service delivery capabilities, domain expertise, and/or service offerings

As an IT services company, our revenue growth has been, and will continue to be, highly dependent on our ability to attract, develop, motivate and retain skilled IT professionals. For the fiscal year ended March 31, 2018, we finished the fiscal year with a total headcount of 20,491 as compared with a total headcount of 17,750 for the fiscal year ended March 31, 2017, which reflects voluntary and involuntary attrition. There is intense competition for IT professionals with the skills necessary to provide the type of services we offer. We closely monitor our overall attrition rates and patterns to ensure our people management strategy aligns with our growth objectives. For the last twelve months ended March 31, 2018, our attrition rate reflects voluntary attrition of 11.8% and involuntary attrition of 7.0%, which includes 3.4% related to implementation of certain cost saving and restructuring initiatives. The majority of our attrition occurs in India and Sri Lanka, and is weighted towards the more junior members of our staff. In response to higher attrition and as part of our retention strategies, we have experienced increases in compensation and benefit costs, which may continue in the future. However, we try to absorb such cost increases through price increases or cost management strategies such as managing discretionary costs, the mix of professional staff and utilization levels and achieving other operating efficiencies. If our attrition rate increases or is sustained at higher levels, our growth may slow and our cost of attracting and retaining IT professionals could increase.

We maintain a six quarter rolling and layering hedging program, which we believe has been effective since inception at reducing the impact of fluctuations in local currencies on our operating results. In

addition, we have a cash flow program designed to mitigate the impact of the volatility of the translation of Polaris U.S. dollar denominated revenue into Indian rupees over a rolling and layering 18 month period, although there is no assurance that this hedging program will continue to be effective. These hedges may also cause us to forego benefits of a positive currency fluctuation, especially given the volatility of these currencies. In addition, to the extent that these hedges cease to qualify for hedge accounting, any gains or losses associated with those hedges would be recorded in other comprehensive income until the occurrence of the underlying transaction and at that time the gains or losses would be recognized in the consolidated statement of income in other income (expense).

We monitor a number of operating metrics to manage and assess our earnings, including:

- *Days sales outstanding (“DSO”)* is a measure of the number of days our accounts receivable are outstanding based upon the last 90 days of revenue activity, which indicates the timeliness of our cash collection from clients and our overall credit terms to our clients. As of March 31, 2018, our DSO was 78 days compared to 80 days as of March 31, 2017.
- *Realized billing rates* are the rates we charge our clients for our services, which reflect the value our clients place on our services, market competition and the geographic location in which we perform our services. Our realized billing rates have remained relatively consistent subject to foreign currency exchange fluctuation for our fiscal year ended March 31, 2018 as compared to our fiscal year ended March 31, 2017. Any increase in realized billing rates is a result of our ability to successfully preserve or increase our billing rates with existing and/or new clients.
- *Average cost per IT professional* is the sum of team member salaries, including variable compensation, and fringe benefits, divided by the average number of IT professionals during the period. We experienced an increase in our average cost per IT professional in our fiscal year ended March 31, 2018 as compared to our fiscal year ended March 31, 2017, primarily driven by competition.
- *Utilization rate* indicates the efficiency of our billable IT resources. Our utilization rate is defined as the number of billable hours in a given period divided by the total number of available hours of our IT professionals in a given period, excluding trainees. We track our utilization rates to measure revenue potential and gross profit margins. Management’s target for the utilization rate is in the low 80% range. Our utilization rates were 83%, 77% and 82% for the fiscal years ended March 31, 2018, 2017 and 2016, respectively. The utilization rate is affected by the rate of quarterly sequential revenue growth, as well as ability to staff existing IT professionals on billable engagements. In growth periods, utilization tends to rise as more resources are deployed to meet rising demand. Utilization rates above the targeted range may also indicate that there are insufficient IT professionals to staff existing or future engagements, which may result in loss of revenue or inability to service client engagements.
- *Attrition rate* is the ratio of terminated team members during the latest twelve months to the total number of team members at the end of such period, which measures team member turnover. Increased voluntary attrition rates result in increased hiring, training and on-boarding costs and productivity losses, which may adversely affect our revenue, gross margin and operating profit margin. For the last twelve months ended March 31, 2018, our attrition rate was 18.8%, which reflects voluntary attrition of 11.8% and involuntary attrition of 7.0%, which includes 3.4% related to implementation of certain cost saving and restructuring initiatives. Our attrition rate for the fiscal year ended March 31, 2017 was 27.4%, which reflects voluntary attrition of 14.5% and involuntary attrition of 12.9%, which includes 8.5% related to implementation of certain cost saving and restructuring initiatives.
- *Operating expense efficiency* is a measure of operating expenses as a percentage of revenue. If we continue to successfully grow our revenue, we anticipate that operating expenses will decrease as a

percentage of revenue as such expenses are absorbed across a larger revenue base. In the near term, however, any operating expense efficiency may decline if our revenue declines.

- *Effective tax rate* is our worldwide tax expense as a percentage of our consolidated net income before tax, which measures the impact of income taxes worldwide on our operations and net income. We monitor and assess our effective tax rate to evaluate whether our tax structure is competitive as compared to our industry. Our effective tax rate was 78.6% and 13.6% for the fiscal years ended March 31, 2018 and 2017, respectively. Our effective tax rate increased primarily due to substantial tax impact from the Tax Act offset in part by benefits claimed on operational losses in certain jurisdictions, the geographical mix of profits and increased holiday benefits during the fiscal year ended March 31, 2018. Increases in our effective tax rate or a high effective tax rate will also have a negative effect on our earnings in future periods.
- *Onsite-to-offshore mix* is the measurement of hours billed by resources located offshore to hours billed by our team members onsite over a defined period. We strive to manage both fixed-price contracts and time-and-materials engagements to a targeted 25% to 75% onsite- to-offshore service delivery team mix, although such delivery mix may be impacted by several factors including our new and existing client delivery requirements as well as the impact of any acquisitions.

Sources of revenue

We generate revenue by providing IT services to our clients located primarily in North America and Europe. We have historically earned, and believe that over the next few fiscal years we will continue to earn a significant portion of our revenue from a limited number of clients. For the fiscal year ended March 31, 2018, collectively, our five largest and ten largest clients accounted for 39% and 50% of our revenue, respectively. Our two largest clients accounted for 19% and 7% respectively, of our revenue for the fiscal year ended March 31, 2018. The loss of any one of our major clients could reduce our revenue and operating profit and harm our reputation in the industry. During the fiscal year ended March 31, 2018, 65% of our revenue was generated in North America, 24% in Europe and 11% in rest of the world. We provide IT services on either a time-and-materials or a fixed-price basis. For the fiscal year ended March 31, 2018, the percentage of revenue from time-and-materials and fixed-price contracts was 59% and 41%, respectively.

Our North America revenue for the fiscal year ended March 31, 2018 increased by 20.1%, or \$111.2 million, to \$665.6 million, or 65.2% of total revenue, from \$554.4 million, or 64.6% of total revenue in the fiscal year ended March 31, 2017. The increase in revenue for the fiscal year ended March 31, 2018 is primarily due to revenue growth from our banking and telecommunications clients.

Our European revenue for the fiscal year ended March 31, 2018 increased by 23.4%, or \$46.1 million, to \$242.6 million, or 23.8% of total revenue, from \$196.5 million, or 23% of total revenue in the fiscal year ended March 31, 2017. The increase in revenue for the fiscal year ended March 31, 2018 is primarily due to revenue growth from our European banking and telecommunications clients.

Revenue from services provided on a time-and-materials basis is derived from the number of billable hours in a period multiplied by the contractual rates at which we bill our clients. Revenue from services provided on a fixed-price basis is recognized as efforts are expended either on a percentage-of-completion method or on a straight-line method. Revenue also includes reimbursements of travel and out-of-pocket expenses with equivalent amounts of expense recorded in costs of revenue. Most of our client contracts, including those that are on a fixed-price basis, can be terminated by our clients with or without cause on 30 to 90 days prior written notice. All fees for services provided by us through the date of cancellation are generally due and payable under the contract terms.

Our unit pricing is driven by business need, delivery timeframes, complexity of the engagement, operating differences (such as onsite/offshore ratio), competitive environment and engagement size or volume. As a pricing strategy to encourage clients to increase the volume of services that we provide to them, we, on occasion may offer volume discounts or longer payment terms. We manage our business carefully to protect our account margins and our overall profit margins. We find that our clients generally purchase on the basis of total value, rather than on minimum cost, considering all of the factors listed above.

While we are subject to the effects of overall market pricing pressure, we believe that there is a fairly broad range of pricing offered by different competitors for each service we provide. We believe that no one competitor, or set of competitors, sets pricing in our industry. We find that our unit pricing, as a result of our global delivery model, is generally competitive with other firms who operate with a predominately offshore operating model.

The proportion of work performed at our offshore facilities and at onsite client locations varies from period-to-period. Effort, in terms of the percentage of hours billed to clients by onsite resources, was 26% and 24% of total hours billed in each of the fiscal years ended March 31, 2018 and 2017, respectively, while the revenue from resources located onsite and offshore accounted for 58% and 42% respectively in the fiscal year ended March 31, 2018, and 54% and 46% respectively during the fiscal year ended March 31, 2017. We charge higher rates and incur higher compensation costs and other expenses for work performed at client locations in the United States, the United Kingdom and Europe as compared to work performed at our global delivery centers in Asia, particularly our largest centers in India and Sri Lanka. Services performed at client locations or at our offices in the United States or the United Kingdom generate higher revenue per-capita at lower gross margins than similar services performed at our global delivery centers in Asia, particularly our largest centers in India and Sri Lanka. We manage to a targeted 25% to 75% onsite-to-offshore service delivery mix, although such delivery mix may be impacted by several factors including our new and existing client delivery requirements as well as the impact of any acquisitions.

Costs of revenue and gross profit

Costs of revenue consist principally of payroll and related fringe benefits, reimbursable and non-reimbursable costs, immigration-related expenses, fees for subcontractors working on client engagements and share-based compensation expense for IT professionals including account management personnel. Wage costs in India and Sri Lanka have historically been significantly lower than wage costs in the United States, Europe and rest of the world for comparably-skilled IT professionals. However, wages in India and Sri Lanka are increasing in local currency, which will result in increased costs for IT professionals, particularly project managers and other mid-level professionals. We may need to increase the levels of our team member compensation more rapidly than in the past to remain competitive without the ability to make corresponding increases to our billing rates. Compensation increases may reduce our profit margins, make us less competitive in pricing potential projects against those companies with lower cost resources and otherwise harm our business, operating results and financial condition. We deploy a campus hiring philosophy and encourage internal promotions to minimize the effects of wage inflation pressure and recruiting costs. Additionally, any material appreciation in the Indian rupee or Sri Lankan rupee against the U.S. dollar or U.K. pound sterling could have a material adverse impact on our cost of services.

Our revenue and gross profit are also affected by our ability to efficiently manage and utilize our IT professionals and fluctuations in foreign currency exchange rates. We define utilization rate as the total number of days billed in a given period divided by the total available days of our IT professionals during that same period, excluding trainees. We manage employee utilization by continually monitoring project requirements and timetables to efficiently staff our projects and meet our clients' needs. The number of IT professionals assigned to a project will vary according to the size, complexity, duration and demands of the

project. An unanticipated termination or reduction of a significant project could cause us to experience a higher than expected number of unassigned IT professionals, thereby lowering our utilization rate.

Although we have adopted a cash flow hedging program to minimize the effect of the Indian rupee movement on our financial condition, particularly our costs of revenue, these hedges may not be effective or may cause us to forego benefits, especially given the volatility of these currencies. In addition, to the extent that these hedges do not qualify for hedge accounting, any gains or losses associated with those hedges would be recorded in other comprehensive income until the occurrence of the underlying transaction and at that time the gains or losses would be recognized in the consolidated statement of income in other income (expense).

Operating expenses

Operating expenses consist primarily of payroll and related fringe benefits, commissions, selling and marketing as well as promotion, communications, management, finance, administrative, occupancy, share-based compensation and depreciation and amortization expenses. In the fiscal years ended March 31, 2018, 2017, and 2016, we invested in all aspects of our business, including sales, marketing, IT infrastructure, facilities, human resources programs and financial operations. Additionally, any material appreciation in the Indian rupee or Sri Lankan rupee against the U.S. dollar or U.K. pound sterling could have a material adverse impact on our cost of operating expenses.

Other income (expense)

Other income (expense) includes interest income, interest expense, investment gains and losses, foreign currency transaction gains and losses and disposal of fixed assets. We generate interest income by investing in time deposits, money market instruments, short-term investments and long-term investments. We incur interest expense primarily from our long-term debt and amortization of our debt issuance cost. The functional currencies of our subsidiaries are their local currencies, except for Hungary which operates in the euro and certain Netherlands entities which operate in the U.S. dollar. Foreign currency gains and losses are generated primarily by fluctuations of the Indian rupee, Sri Lankan rupee, Swedish Krona (“SEK”), euro, U.K. pound sterling and the Singapore dollar, against the U.S. dollar on intercompany transactions. This includes fluctuations on an Indian rupee denominated intercompany note in a U.S. dollar functional currency entity in the Netherlands that was put in place as part of the structuring of the Polaris acquisition. At March 31, 2018, the approximate value of the intercompany note was \$307,939 (Indian rupee 20,000,000). We place our cash in liquid investments at highly-rated financial institutions, as well as in money market funds, fixed income securities, U. S. dollar denominated corporate bonds, agency bonds and government bonds based on our investment policy approved by our audit committee and board of directors. We believe that our credit policies reflect normal industry terms and business risk.

Income tax expense

Our net income is subject to income tax in those countries in which we perform services and have operations, including the United States, the United Kingdom, the Netherlands, India, Sri Lanka, Germany, Singapore, Austria, Hungary, Malaysia and Sweden. In the fiscal year ended March 31, 2018, our effective tax rate was impacted by the Tax Act, the mix of income by jurisdiction and availability and term of certain tax holidays during the fiscal year ended March 31, 2018. Historically, we have benefited from long-term income tax holiday arrangements in both India and Sri Lanka that are offered to certain export-oriented IT services firms. As a result of these tax holiday arrangements, our worldwide profit has been subject to a relatively low effective tax rate as compared to the statutory rates in the countries in which we generate the substantial portion of our revenue. The effect of the income tax holidays in India and Sri Lanka decreased our income tax expense in the fiscal years ended March 31, 2018 and 2017 by \$7.7 million and \$8.0 million, respectively. However, our tax expense increased by \$30.3 million in the fiscal year ended March 31, 2018 compared to our tax expense for our fiscal year ended March 31, 2017. The increase in the tax expense and

effective tax rate for the fiscal year ended March 31, 2018 was primarily due to the provisional net charges of \$22.7 million recorded due to recently enacted Tax Act, an increase in income from operations, a change in geographical mix of profits and certain foreign currency translation losses with no corresponding tax expense offset by stock compensation deductions.

Our effective tax rate was 78.6% and 13.6% for each of the fiscal years ended March 31, 2018 and 2017 respectively. Our effective tax rate in future periods will be affected by the Tax Act, the geographic distribution of our earnings, as well as the availability of tax holidays in India, Sri Lanka and Malaysia. We expect our effective tax rate to increase as a result of a higher tax rate in India, geographical mix of our profits and certain provision of the recently enacted Tax Act in the United States.

Application of critical accounting estimates and risks

Our consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP. Preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of revenue and expenses, assets and liabilities and the disclosure of contingent assets and liabilities. We consider an accounting estimate to be critical to the preparation of our consolidated financial statements when both of the following are present:

- the estimate is complex in nature or requires a high degree of judgment; and
- the use of different estimates and assumptions could have a material impact on the consolidated financial statements.

We have discussed the development and selection of our critical accounting estimates and related disclosures with the audit committee of our board of directors. Those estimates critical to the preparation of our consolidated financial statements are listed below.

Revenue recognition

We derive our revenue from a variety of IT consulting, technology implementation and application outsourcing services. Contracts for these services have different terms and conditions based on the scope, deliverables, and complexity of the engagement which require management to make judgments and estimates in determining the overall cost to the customer. Fees for these contracts may be in the form of time and materials or fixed price arrangements.

Revenue is recognized as work is performed and amounts are earned. We consider amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable, and collectability is reasonably assured. Volume discounts are recorded as a reduction of revenue over the contractual period as services are performed.

Revenue on time and material contracts is recognized as the services are performed and amounts are earned.

Revenue from fixed price contracts related to complex design, development and customization is accounted for under the percentage of completion method. Under the percentage of completion method, management estimates the percentage of completion based upon efforts incurred as a percentage of the total estimated efforts for the specified engagement. When total cost estimates exceed revenue, we accrue for the estimated losses immediately. The use of the percentage of completion method requires significant judgment relative to estimating total contract revenue and efforts, including assumptions relative to the length of time to complete the project, the nature and complexity of the work to be performed, and anticipated changes in other engagement related costs. Our analysis of these contracts also contemplates whether contracts should be combined or segmented. We combine closely related contracts when all the applicable criteria under U.S. GAAP are met. Similarly, we may segment a project, which may consist of a single contract or a group of contracts, with varying rates of profitability, only if all the applicable criteria

under U.S. GAAP are met. Estimates of total contract revenue and efforts are continuously monitored during the term of the contract and are subject to revision as the contract progresses. When revisions in estimated contract revenue and efforts are determined, such adjustments are recorded in the period in which they are first identified.

Revenue from fixed-price contracts related to consulting or other IT services is accounted for using a proportional performance method. Performance is generally measured based upon the efforts incurred to date in relation to the total estimated efforts to the completion of the contract. The cumulative impact of any change in estimates of the contract revenue is reflected in the period in which the changes become known.

Revenue from fixed-price applications management, maintenance or support engagements is recognized as earned which generally results in straight-line revenue recognition as services are performed continuously over the term of the engagement.

We may enter into arrangements that consist of multiple elements and in these types of arrangements the transaction price is allocated to the individual units of accounting at the inception of the arrangement based on the relative selling price. The company uses a hierarchy to determine the selling prices to be used for allocating revenue: (i) vendor-specific objective, evidence of fair value (VSOE), (ii) third-party evidence of selling price (TPE), and (iii) best estimate of the selling price (ESP).

We may enter into hosting arrangements where revenue is recognized as the service is delivered, generally on a straight-line basis, over the contractual period of performance. In these type of arrangements the company considers the rights provided to the customer in determining whether the arrangement includes the sale of a software license.

Differences between the timing of billings and the recognition of revenue based on various methods of accounting are recorded as unbilled revenue or deferred revenue.

Valuation and impairment of investments and/or marketable securities

We classify our marketable securities as available-for-sale or trading securities, and carry them at fair market value. Changes in fair value subsequent to the balance sheet date are recorded in the period in which they occur. The difference between amortized cost and fair market value, net of tax effect, for available-for-sale securities is recorded as a separate component of stockholders' equity. The difference between amortized cost and fair market value for trading securities is reflected in "other income, net" on our consolidated statements of income. Investments and/or marketable securities classified as available-for-sale are considered to be impaired when a decline in fair value below cost basis is determined to be other than temporary. We conduct a periodic review and evaluation of our investment securities to determine if the decline in fair value of any security is deemed to be other-than-temporary. Other-than-temporary impairment losses are recognized on securities when: (i) the holder has an intention to sell the security; (ii) it is more likely than not that the security will be required to be sold prior to recovery; or (iii) the holder does not expect to recover the entire amortized cost basis of the security. Other-than-temporary losses are reflected in earnings as a charge against gain on sale of investments to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. We have no intention to sell any securities in an unrealized loss position at March 31, 2018 nor is it more likely than not that we would be required to sell such securities prior to the recovery of the unrealized losses and we expect to recover the entire amortization cost basis of the security. At March 31, 2018, we believe that all impairments of investment securities are temporary in nature.

Derivative instruments and hedging activities

We enter into forward foreign exchange contracts to mitigate the risk of changes in foreign exchange rates on forecasted transactions denominated in foreign currencies. The Company also enters into interest rate swaps to mitigate interest rate risk on the Company's variable rate debt. Certain of these transactions meet the criteria for hedge accounting as cash flow hedges under accounting standards codification. Changes in the fair values of these hedges are deferred and recorded as a component of accumulated other comprehensive income (loss), net of tax, until the hedged transactions occur and are then recognized in the consolidated statements of income in the same line item as the item being hedged. The Company measures the effectiveness of these hedges at the time of inception, as well as on an ongoing basis. If any portion of the hedges is deemed ineffective, the respective portion is recorded in accumulated other comprehensive income until the occurrence of the hedged transaction and at that time, the gains or losses are recognized in the consolidated statement of income in other income (expense). For derivative contracts that are not designated as cash flow hedges, at maturity changes in the fair value, if any, are recognized in the same line item as the underlying exposure being hedged in the statements of income. We value our derivatives based on market observable inputs including both forward and spot prices for currencies. Any significant change in the forward or spot prices for currencies would have a significant impact on the value of our derivatives.

Goodwill and other intangible assets

We account for our business combinations under the acquisition method of accounting. We allocate the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price for acquisitions over the fair value of the net assets acquired, including other intangible assets, is recorded as goodwill. Goodwill is not amortized but is tested for impairment at the reporting unit level, defined at the Company level, at least annually in the fourth quarter of each fiscal year or more frequently when events or circumstances occur that indicate that it is more likely than not that an impairment has occurred. In assessing goodwill for impairment, an entity has the option to assess qualitative factors to determine whether events or circumstances indicate that it is not more likely than not that fair value of a reporting unit is less than its carry amount. If this is the case, then performing the quantitative two-step goodwill impairment test is unnecessary. An entity can choose not to perform a qualitative assessment for any or all of its reporting units, and proceed directly to the use of the two-step impairment test. The two-step process begins with an estimation of the fair value of a reporting unit. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value. Significant judgment is applied when goodwill is assessed for impairment.

For our goodwill impairment analysis, we operate under one reporting unit. Any impairment would be measured based upon the fair value of the related assets. In performing the first step of the goodwill impairment testing and measurement process, we compare our entity-wide estimated fair value to net book value to identify potential impairment. Management estimates the entity-wide fair value utilizing our market capitalization, plus an appropriate control premium. Market capitalization is determined by multiplying the shares outstanding on the assessment date by the market price of our common stock. If the fair value of the reporting unit is less than the book value, the second step is performed to determine if goodwill is impaired. If we determine through the impairment evaluation process that goodwill has been impaired, an impairment charge would be recorded in the consolidated statement of income. We completed the annual impairment test required during the fourth quarter of the fiscal year ended March 31, 2018 and determined that there was no impairment. We continue to closely monitor our market capitalization. If our market capitalization, plus an estimated control premium, is below its carrying value for a period considered to be other- than-temporary, it is possible that we may be required to record an impairment of goodwill either as a result of the annual assessment that we conduct in the fourth quarter of each fiscal year, or in a future quarter if an indication of potential impairment is evident. The estimated fair value of the reporting unit on the assessment date significantly exceeded the carrying book value.

Other intangible assets acquired in a business combination are recognized at fair value using generally accepted valuation methods appropriate for the type of intangible asset and reported separately from goodwill. Intangible assets with definite lives are amortized over the estimated useful lives and tested for impairment when events or circumstances occur that indicate that it is more likely than not that an impairment has occurred. We test other intangible assets with definite lives for impairment by comparing the carrying amount to the sum of the net undiscounted cash flows expected to be generated by the asset whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount of the asset exceeds its net undiscounted cash flows, then an impairment loss is recognized for the amount by which the carrying amount exceeds its fair value.

Income taxes

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations in multiple jurisdictions where the Company has operations. We record liabilities for estimated tax obligations in the United States and other tax jurisdictions. Determining the consolidated provision for income tax expense, tax reserves, deferred tax assets and liabilities and related valuation allowance, if any, involves judgment. We calculate and provide for income taxes in each of the jurisdictions in which we operate, and these calculations and determinations can involve complex issues which require an extended time to resolve. In the fiscal year of any such resolution, additional adjustments may need to be recorded that result in increases or decreases to income. Our overall effective tax rate fluctuates due to a variety of factors, including arm's-length prices for our intercompany transactions, changes in the geographic mix, as well as newly enacted tax legislation in each of the jurisdictions in which we operate. Applicable transfer pricing regulations require that transactions between and among our subsidiaries be conducted at an arm's-length price. On an ongoing basis, we estimate appropriate arm's-length prices and use such estimates for our intercompany transactions.

At each financial statement date, we evaluate whether a valuation allowance is needed to reduce our deferred tax assets to the amount that is more likely than not to be realized. This evaluation considers the weight of all available evidence, including both future taxable income and ongoing prudent and feasible tax planning strategies. In the event that we determine that we will not be able to realize a recognized deferred tax asset in the future, an adjustment to the valuation allowance would be made, resulting in a decrease in income (or equity in the case of excess stock option tax benefits) in the period such determination was made. Likewise, should we determine that we will be able to realize all or part of an unrecognized deferred tax asset in the future, an adjustment to the valuation allowance would be made, resulting in an increase to income (or equity in the case of excess stock option tax benefits). We currently have net operating loss carry forwards in the US jurisdiction that are expected to be utilized in the next several years. Net operating losses in the U.S. have an unlimited carry forward period, although there are annual limitations on their use. We expect that U.S. taxable income will recover to levels sufficient to allow for the realization of U.S. deferred tax assets. Certain provisions of the recently enacted US tax reform such as GILTI, NOL limitations, and forecasted profitability were considered in determining it is "more likely than not" that our deferred tax asset is recoverable.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Acts (the "Tax Act"). The Tax Act contains several key tax provisions that will impact the Company, including the reduction of the corporate income tax rate to 21% effective January 1, 2018. The Tax Act also includes a variety of other changes, such as a one-time repatriation tax on accumulated foreign earnings, a limitation on the tax deductibility of interest expense, acceleration of business asset expensing, and reduction in the amount of executive pay that could qualify as a tax deduction, among others.

We have benefited from long-term income tax holiday arrangements in both India and Sri Lanka. We have located new development centers in areas designated as Special Economic Zones ("SEZ") to secure tax exemptions for these operations for a period of ten years, which could extend to 15 years if we meet

certain reinvestment requirements. During the fiscal year ended March 31, 2013, we elected the tax holiday for our SEZ Co-developer located in Hyderabad, India for a period of 10 years. During the fiscal years ended March 31, 2018 and 2016, we established new units in Bangalore and Hyderabad, respectively, in SEZ designated areas, for which it is eligible for tax holiday for up to 15 years. Our India profits ineligible for SEZ benefits are subject to corporate income tax at the current rate of 34.61%. Our Sri Lanka subsidiary has been granted an income tax holiday by the Sri Lanka Board of Investment (“BOI”) which expires on March 31, 2019. The tax holiday is contingent upon a certain level of job creation by us during a given timetable. Although we believe we have met the job creation requirements, if the BOI concludes otherwise, this would jeopardize the maximum benefits from this holiday arrangement. As a result of these tax holiday arrangements, our worldwide profit has been subject to a relatively low effective tax rate, and the loss of any of these arrangements would increase our overall effective tax rate and reduce our net income.

It is our intent to reinvest all accumulated earnings from foreign operations back into their respective businesses to fund growth. As a component of this strategy, we do not accrue incremental taxes on foreign earnings as these earnings are considered to be indefinitely reinvested outside of the United States. If such earnings were to be repatriated in the future or are no longer deemed to be indefinitely reinvested, we will accrue the applicable amount of taxes associated with such earnings, which would increase our overall effective tax rate. During the fiscal year ended March 31, 2018, we repatriated \$15.8 million from Virtusa C.V., a subsidiary of the Company, organized to finance the acquisition of Polaris.

Share-based compensation

Under the fair value recognition provisions of accounting standards, share-based compensation cost is measured at the grant date based on the value of the award and is recognized over the vesting period. The fair value of restricted awards and deferred stock awards is determined based on the number of stock awards granted and the quoted price of our stock at date of grant. Determining the fair value of the stock option awards at the grant date requires judgment, including estimating the expected term over which stock options will be outstanding before they are exercised and the expected volatility of our stock. We changed our accounting policy from estimated forfeitures to actual forfeitures effective April 1, 2017 upon adoption of ASU 2016-09 Accounting Standard Update (“ASU”) No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. If actual results differ significantly from our estimates, share-based compensation expense and our results of operations could be materially impacted.

The risk-free interest rate assumptions are based on the interpolation of various U.S. Treasury bill rates in effect during the month in which stock option awards are granted. Our volatility assumption is based on the historical volatility rates of our common stock over periods commensurate with the expected term of each grant.

The expected term of employee share-based awards represents the weighted average period of time that awards are expected to remain outstanding. The expected term of our options is based on historical employee exercise patterns.

Results of operations

Fiscal year ended March 31, 2018 compared to fiscal year ended March 31, 2017

The following table presents an overview of our results of operations for the fiscal years ended March 31, 2018 and 2017:

	Fiscal Year Ended March 31,		\$ Change	% Change
	2018	2017		
	(Dollars in thousands)			
Revenue	\$1,020,669	\$858,731	\$161,938	18.9%
Costs of revenue	725,445	620,950	104,495	16.8%
Gross profit	295,224	237,781	57,443	24.2%
Operating expenses	248,837	219,410	29,427	13.4%
Income from operations	46,387	18,371	28,016	152.5%
Other income (expense)	(4,551)	447	(4,998)	-1118.1%
Income before income tax expense	41,836	18,818	23,018	122.3%
Income tax expense	32,888	2,561	30,327	1184.2%
Net income	8,948	16,257	(7,309)	-45.0%
Less: net income attributable to noncontrolling interests, net of tax	7,694	4,399	3,295	74.9%
Net income available to Virtusa stockholders	1,254	11,858	(10,604)	-89.4%
Less: Series A Convertible Preferred Stock dividends and accretion	3,963	—	3,963	
Net income (loss) attributable to Virtusa common stockholders	\$ (2,709)	\$ 11,858	\$ (14,567)	-122.8%

Revenue

Revenue increased by 18.9%, or \$161.9 million, from \$858.7 million during the fiscal year ended March 31, 2017 to \$1,020.7 million in the fiscal year ended March 31, 2018. The increase in revenue was primarily due to broad based growth, particularly in our top ten clients and revenue growth from our banking and telecommunications clients. Revenue from North American clients increased by \$111.2 million, or 20.1%, as compared to the fiscal year ended March 31, 2017. Revenue from European clients in the fiscal year ended March 31, 2018 increased by \$46.1 million, or 23.4%, as compared to the fiscal year ended March 31, 2017. The growth in both North American and European clients was primarily attributable to banking and telecommunications clients in the fiscal year ended March 31, 2018 as compared to the fiscal year ended March 31, 2017. Our number of clients increased from 191 at March 31, 2017 to 215 at March 31, 2018, inclusive of clients acquired as part of the eTouch acquisition.

Costs of revenue

Costs of revenue increased from \$621.0 million in the fiscal year ended March 31, 2017 to \$725.4 million in the fiscal year ended March 31, 2018, an increase of \$104.4 million, or 16.8%, which includes a foreign currency expense of \$4.9 million due to the appreciation of the Indian rupee. The increase in cost of revenue was primarily due to an increase in the number of IT professionals and related compensation and benefit costs of \$83.0 million, reflective of an increase in onsite effort. The increased costs of revenue are also due to an increase in subcontractor costs of \$18.8 million and an increase of \$3.7 million in travel expenses. At March 31, 2018, we had 18,648 IT professionals, inclusive of IT professionals acquired as part of the eTouch acquisition, as compared to 16,127 at March 31, 2017.

Gross profit

Our gross profit increased by \$57.4 million or 24.2%, to \$295.2 million for the fiscal year ended March 31, 2018 as compared to \$237.8 million in the fiscal year ended March 31, 2017 primarily due to our growth in revenue, partially offset by increased cost of revenue related to increase in onsite effort and use of subcontractors. As a percentage of revenue, our gross margin was 28.9% and 27.7% in the fiscal years ended March 31, 2018 and 2017, respectively. The increase in gross margin was primarily a result of higher utilization.

Operating expenses

Operating expenses increased from \$219.4 million in the fiscal year ended March 31, 2017 to \$248.8 million in the fiscal year ended March 31, 2018, an increase of \$29.4 million, which includes a foreign currency expense of \$2.2 million due to the appreciation of the Indian rupee. The increase in operating expenses was due to an increase of \$26.3 million in compensation related expenses and \$2.1 million in facilities expenses. As a percentage of revenue, our operating expenses decreased from 25.6% in the fiscal year ended March 31, 2017 to 24.4% in the fiscal year ended March 31, 2018, primarily due to a decrease in facilities and travel expense as a percentage of revenue as well as a decrease in acquisition and integration related expenses incurred during the fiscal year ended March 31, 2017.

Income from operations

Income from operations increased from \$18.4 million in the fiscal year ended March 31, 2017 to \$46.4 million in the fiscal year ended March 31, 2018, an increase of \$28.0 million or 152.5%. As a percentage of revenue, income from operations increased from 2.1% in the fiscal year ended March 31, 2017 to 4.5% in the fiscal year ended March 31, 2018. The increase in income from operations as a percentage of revenue primarily due to higher gross margin and operating efficiencies.

Other income (expense)

Other income decreased from an income of \$0.4 million in the fiscal year ended March 31, 2017 to an expense of \$4.6 million in the fiscal year ended March 31, 2018. The decrease is primarily attributed to an increase in foreign currency transaction losses due to the depreciation of our Indian rupee denominated intercompany note when converted into U.S. dollars of \$6.8 million, partially offset by an increase in investment income of \$1.4 million and an increase in interest income of \$0.2 million.

Income tax expense

We had income tax expense of \$32.9 million and \$2.6 million for the fiscal years ended March 31, 2018 and 2017, respectively. Our effective tax rate was 78.6% and 13.6% for the fiscal years ended March 31, 2018 and 2017, respectively. The increase in the tax expense and effective tax rate for the fiscal year ended March 31, 2018 was primarily due to the provisional net charges of \$22.7 million recorded due to recently enacted Tax Act, an increase in income from operations, a change in geographical mix of profits and certain foreign currency translation losses with no corresponding tax expense offset by income tax benefit on stock compensation deductions.

Noncontrolling interests

In connection with the Polaris acquisition, for the fiscal year ended March 31, 2018, we recorded a noncontrolling interest of \$7.7 million, representing a weighted average of 23.2% share of profits of Polaris held by parties other than Virtusa. At March 31, 2018, our noncontrolling interest was 7.4%, which gives effect to the delisting offer that settled on February 12, 2018.

Net income available to Virtusa stockholders

Net income available to Virtusa stockholders for the fiscal year ended March 31, 2018 was \$1.3 million, a decrease of 89.4% or \$10.6 million compared to net income of \$11.9 million for the fiscal year ended March 31, 2017. The decrease in net income in the fiscal year ended March 31, 2018 was primarily due to a substantial increase in income tax expense from the provisional impact of the Tax Act, principally related to the repatriation tax of \$17.8 million and re-measurement of deferred tax assets of \$4.9 million.

Series A Convertible Preferred Stock dividends and accretion

In connection with the Orogen Preferred Stock Financing, we recorded dividends and accreted issuance costs of \$4.0 million at a rate of 3.875% per annum for the fiscal year ended March 31, 2018.

Net income (loss) attributable to Virtusa common stockholders

Net income attributable to Virtusa common stockholders decreased by 122.8%, from an income of \$11.9 million for the fiscal year ended March 31, 2017 to a net loss of \$(2.7) million for the fiscal year ended March 31, 2018. The decrease in the fiscal year ended March 31, 2018 was primarily due to substantial increase in income tax expense from the provisional impact of the Tax Act, principally related to the repatriation tax of \$17.8 million and re-measurement of deferred tax assets of \$4.9 million

Fiscal year ended March 31, 2017 compared to fiscal year ended March 31, 2016

The following table presents an overview of our results of operations for the fiscal years ended March 31, 2017 and 2016:

	Fiscal Year Ended March 31,		\$ Change	% Change
	2017	2016		
				(Dollars in thousands)
Revenue	\$858,731	\$600,302	\$258,429	43.0%
Costs of revenue	620,950	389,310	231,640	59.5%
Gross profit	237,781	210,992	26,789	12.7%
Operating expenses	219,410	165,672	53,738	32.4%
Income from operations	18,371	45,320	(26,949)	(59.5)%
Other income	447	12,349	(11,902)	(96.4)%
Income before income tax expense	18,818	57,669	(38,851)	(67.4)%
Income tax expense	2,561	12,649	(10,088)	(79.8)%
Net income	16,257	45,020	(28,763)	(63.9)%
Less: net income attributable to noncontrolling interests . .	4,399	218	4,181	1917.9%
Net income attributable to Virtusa stockholders	\$ 11,858	\$ 44,802	\$(32,944)	(73.5)%

Revenue

Revenue increased by 43.0%, or \$258.4 million, from \$600.3 million during the fiscal year ended March 31, 2016 to \$858.7 million in the fiscal year ended March 31, 2017, due primarily to a full year of revenue contribution from Polaris. Polaris revenue contribution was \$290.4 million for the fiscal year ended March 31, 2017, compared to \$19.4 million for the 29 day period ending March 31, 2016. Excluding Polaris, broad based growth, particularly in our non-top ten clients, was offset by a decline in our insurance industry group. Revenue from clients existing as of March 31, 2016, increased by \$228.9 million, and revenue from new clients was \$29.5 million during the fiscal year ended March 31, 2017, as compared to

the fiscal year ended March 31, 2016. Revenue from North American clients increased by \$133.2 million, or 31.6%, as compared to the fiscal year ended March 31, 2016. Revenue from European clients in the fiscal year ended March 31, 2017 increased by \$61.9 million, or 46.0%, as compared to the fiscal year ended March 31, 2016. The growth in both North American and European clients was primarily attributable to Polaris. Revenue growth was led by BFS and M&I industry groups, which increased by 67.5% and 39.9% respectively, in the fiscal year ended March 31, 2017 as compared to the fiscal year ended March 31, 2016. Our number of clients increased from 174 at March 31, 2016 to 191 at March 31, 2017.

Costs of revenue

Costs of revenue increased from \$389.3 million in the fiscal year ended March 31, 2016 to \$620.9 million in the fiscal year ended March 31, 2017, an increase of \$231.6 million, or 59.5%, which includes a foreign currency benefit of \$10.6 million due to the depreciation of the Indian rupee. The increase in cost of revenue was due to an increase in compensation and benefit costs of \$187.4 million, primarily related to a full year of headcount associated with the Polaris acquisition completed on March 3, 2016. The increased costs of revenue are also due to an increase in subcontractor costs of \$31.1 million and an increase of \$8.8 million in travel expenses. At March 31, 2017, we had 16,127 IT professionals as compared to 16,321 at March 31, 2016.

Gross profit

Our gross profit increased by \$26.8 million or 12.7%, to \$237.8 million for the fiscal year ended March 31, 2017 as compared to \$211.0 million in the fiscal year ended March 31, 2016 primarily due to our growth in revenue, partially offset by increased cost of revenue related to increase in onsite effort and use of subcontractors. As a percentage of revenue, our gross margin was 27.7% and 35.1% in the fiscal years ended March 31, 2017 and 2016, respectively. The decrease in gross margin was primarily a result of lower gross margins on our larger transformational programs that begin with higher onsite effort as well as an increase in onsite work including travel expenses and subcontractors, primarily as a result of the Polaris acquisition.

Operating expenses

Operating expenses increased from \$165.7 million in the fiscal year ended March 31, 2016 to \$219.4 million in the fiscal year ended March 31, 2017, an increase of \$53.8 million, which includes a foreign currency benefit of \$4.5 million due to the depreciation of the Indian rupee. The increase in operating expenses was due to an increase of \$31.6 million in compensation related expenses primarily related to a full year of Polaris headcount, \$16.6 million in facilities expenses primarily related to a full year of Polaris facilities and an increase of \$4.8 million in travel expenses. As a percentage of revenue, our operating expenses decreased from 27.6% in the fiscal year ended March 31, 2016 to 25.6% in the fiscal year ended March 31, 2017, reflecting an increase in operating efficiencies as a result of the Polaris integration.

Income from operations

Income from operations decreased from \$45.3 million in the fiscal year ended March 31, 2016 to \$18.4 million in the fiscal year ended March 31, 2017, a decrease of \$26.9 million or 59.5%. This decrease in income from operations was primarily driven by an increase in onsite work and the negative impact of foreign currency on non-U.S. denominated revenues, when converted in to U.S. dollars. As a percentage of revenue, income from operations decreased from 7.5% in the fiscal year ended March 31, 2016 to 2.1% in the fiscal year ended March 31, 2017. The decrease in income from operations was primarily due to higher onsite effort as a percentage of revenue, particularly higher onsite work as a result of the Polaris acquisition.

Other income

Other income decreased from \$12.3 million in the fiscal year ended March 31, 2016 to \$0.4 million in the fiscal year ended March 31, 2017. The decrease is primarily attributed to an increase in foreign currency transaction losses of \$4.0 million, and an increase in net interest expense of \$8.3 million primarily resulting from our term loan.

Income tax expense

We had income tax expense of \$2.6 million and \$12.6 million for the fiscal years ended March 31, 2017 and 2016, respectively. Our effective tax rate was 13.6% and 21.9% for the fiscal years ended March 31, 2017 and 2016, respectively. The decrease in the effective tax rate is primarily due to tax benefits claimed on operational losses in certain jurisdictions, the geographical mix of profits and increased holiday benefits, partially offset by tax cost on repatriation of a dividend and increases in uncertain tax positions during the fiscal year ended March 31, 2017.

Noncontrolling interests

In connection with the Polaris acquisition, for the fiscal year ended March 31, 2017, we recorded a noncontrolling interest of \$4.4 million, representing a weighted average of 22.8% share of profits of Polaris held by parties other than Virtusa.

Net income attributable to Virtusa stockholders

Net income for the fiscal year ended March 31, 2017 was \$11.9 million, a decrease of 73.5% or \$32.9 million compared to net income of \$44.8 million for the fiscal year ended March 31, 2016 driven by lower utilization, higher on-site efforts, higher operating costs, foreign currency transaction losses and interest expense related to our term loan.

Non-GAAP Measures

We include certain non-GAAP financial measures as defined by Regulation G by the Securities and Exchange Commission. These non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles and should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures should be read in conjunction with our financial statements prepared in accordance with GAAP.

We consider the total measure of cash, cash equivalents, short-term and long-term investments to be an important indicator of our overall liquidity. All of our investments are classified as available-for-sale, including our long-term investments which consist of fixed income securities, including government agency bonds and municipal and corporate bonds, which meet the credit rating and diversification requirements of our investment policy as approved by our audit committee and board of directors.

The following table provides the reconciliation from cash and cash equivalents to total cash and cash equivalents, short-term investments and long-term investments:

	Fiscal Year Ended March 31,	
	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$194,897	\$144,908
Short-term investments	45,900	72,028
Long-term investments	<u>4,140</u>	<u>20,057</u>
Total cash and cash equivalents, short-term and long-term investments	<u>\$244,937</u>	<u>\$236,993</u>

We believe the following financial measures will provide additional insights to measure the operational performance of our business.

- We present the following consolidated statements of income (loss) measures that exclude, when applicable, stock-based compensation expense, acquisition-related charges, restructuring charges, foreign currency transaction gains and losses, non-recurring third party financing costs, the tax impact of dividends received from foreign subsidiaries and the impact from the U.S. government enacted comprehensive tax legislation (“Tax Act”) to provide further insights into the comparison of our operating results among the periods:
 - Non-GAAP income from operations: income from operations, as reported on our consolidated statements of income (loss), excluding stock-based compensation expense, and acquisition-related charges and restructuring charges
 - Non-GAAP operating margin: non-GAAP income from operations as a percentage of reported revenues
 - Non-GAAP net income available to Virtusa common stockholders: net income (loss) available to Virtusa common stockholders, as reported on our consolidated statements of income (loss), excluding stock-based compensation, acquisition-related charges, restructuring charges, foreign currency transaction gains and losses, non-recurring third party financing costs, the tax impact of the above items, the tax impact of dividends received from foreign subsidiaries and the impact from the Tax Act.
 - Non-GAAP diluted earnings per share: diluted earnings (loss) per share, as reported on our consolidated statements of income (loss) available to Virtusa common stockholders, excluding stock-based compensation, acquisition-related charges, restructuring charges, foreign currency transaction gains and losses, non-recurring third party financing costs, the tax impact of the above items, the tax impact of dividends received from foreign subsidiaries and the impact from the Tax Act. Non-GAAP diluted earnings per share is also subject to dilutive and anti-dilutive requirements of the if-converted method related to our Series A Convertible Preferred Stock that could result in a difference between GAAP to non-GAAP diluted weighted average shares outstanding.

The following table presents a reconciliation of each non-GAAP financial measure to the most comparable GAAP measure for the years ended March 31:

	Fiscal Year Ended March 31,		
	2018	2017	2016
	(in thousands, except per share amounts)		
GAAP income from operations	\$ 46,387	\$18,371	\$ 45,320
Add: Stock-based compensation expense	27,411	22,123	16,179
Add: Acquisition-related charges and restructuring charges(1)	13,278	15,217	18,049
Non-GAAP income from operations	<u>\$ 87,076</u>	<u>\$55,711</u>	<u>\$ 79,548</u>
GAAP operating margin	4.5%	2.1%	7.6%
Effect of above adjustments to income from operations	4.0%	4.4%	5.7%
Non-GAAP operating margin	<u>8.5%</u>	<u>6.5%</u>	<u>13.3%</u>
GAAP net income (loss) available to Virtusa common stockholders . . .	\$ (2,709)	\$11,858	\$ 44,802
Add: Stock-based compensation expense	27,411	22,123	16,179
Add: Acquisition-related charges and restructuring charges(1)	13,346	15,217	18,049
Add: Non-recurring third party financing costs(9)	701	—	—
Add: Foreign currency transaction (gains) losses(2)	3,543	(3,009)	(7,050)
Add: Impact from the Tax Act(8)	22,724	—	—
Tax adjustments (3)	(14,037)	(6,861)	(10,090)
Less: Noncontrolling interest, net of taxes(4)	(1,469)	(1,699)	—
Non-GAAP net income available to Virtusa common stockholders . . .	<u>\$ 49,510</u>	<u>\$37,629</u>	<u>\$ 61,890</u>
GAAP diluted earnings (loss) per share(6)	\$ (0.09)	\$ 0.39	\$ 1.49
Effect of stock-based compensation expense(7)	0.85	0.73	0.54
Effect of acquisition-related charges and restructuring charges(1)(7)	0.41	0.51	0.60
Effect of non-recurring third party financing costs(9)(8)	0.02	—	—
Effect of foreign currency transaction (gains) losses(2)(7)	0.11	(0.10)	(0.23)
Effect of impact from the Tax Act(7)(8)	0.70	—	—
Tax adjustments(3)(7)	(0.43)	(0.22)	(0.34)
Effect of noncontrolling interest(4)(7)	(0.05)	(0.06)	—
Effect of dividend on Series A Convertible Preferred Stock(6)(7) . . .	0.10	—	—
Effect of change in dilutive shares for non-GAAP(6)	0.01	—	—
Non-GAAP diluted earnings per share(5)(7)	<u>\$ 1.63</u>	<u>\$ 1.25</u>	<u>\$ 2.06</u>

(1) Acquisition-related charges include, when applicable, amortization of purchased intangibles, external deal costs, acquisition-related retention bonuses, changes in the fair value of contingent consideration liabilities, changes in fair value related to deferred acquisition payments, charges for impairment of acquired intangible assets and other acquisition-related costs including integration expenses consisting of outside professional and consulting services and direct and incremental travel costs. Restructuring charges, when applicable, include termination benefits, as well as certain professional fees related to

the restructuring. The following table provides the details of the acquisition-related charges and restructuring charges:

	Fiscal Year Ended March 31,		
	2018	2017	2016
Amortization of intangible assets	\$10,089	\$ 9,523	\$ 5,490
Acquisition & integration costs	1,889	3,296	12,559
Restructuring costs	1,368	2,398	—
Total	<u>\$13,346</u>	<u>\$15,217</u>	<u>\$18,049</u>

- (2) Foreign currency transaction gains and losses are inclusive of gains and losses on related foreign exchange forward contracts not designated as hedging instruments for accounting purposes.
- (3) Tax adjustments reflect the estimated tax effect of the non-GAAP adjustments using the tax rates at which these adjustments are expected to be realized for the respective periods.
- (4) Noncontrolling interest represents the minority shareholders interest of Polaris.
- (5) Non-GAAP diluted earnings per share is subject to rounding.
- (6) During the fiscal year ended March 31, 2018, the weighted average shares outstanding of Series A Convertible Preferred Stock of 2,728,022 respectively, were excluded from the calculations of GAAP diluted earnings per share as their effect would have been anti-dilutive using the if-converted method.

The following table provides the non-GAAP net income available to Virtusa common stockholders and non-GAAP dilutive weighted average shares outstanding using if-converted method to calculate the non-GAAP diluted earnings per share for the fiscal year ended March 31, 2018, 2017 and 2016:

	Fiscal Year Ended March 31,		
	2018	2017	2016
Non-GAAP net income available to Virtusa common stockholders	\$ 49,510	\$ 37,629	\$ 61,890
Add: Dividends and accretion on Series A Convertible Preferred Stock	<u>3,262</u>	<u>—</u>	<u>—</u>
Non-GAAP net income available to Virtusa common stockholders and assumed conversion . . .	<u>\$ 52,772</u>	<u>\$ 37,629</u>	<u>\$ 61,890</u>
GAAP dilutive weighted average shares outstanding	29,397,350	30,215,171	30,004,982
Add: Dilutive effect of employee stock options and unvested restricted stock awards and restricted stock units	728,820	—	—
Add: Series A Convertible Preferred Stock as converted	<u>2,250,000</u>	<u>—</u>	<u>—</u>
Non-GAAP dilutive weighted average shares outstanding	<u><u>32,376,170</u></u>	<u><u>30,215,171</u></u>	<u><u>30,004,982</u></u>

- (7) To the extent the Series A Convertible Preferred Stock is dilutive using the if-converted method, the Series A Convertible Preferred Stock is included in the weighted average shares outstanding to determine non-GAAP diluted earnings per share.
- (8) The U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”) in December 2017. This resulted in a tax expense of \$22.7 million for the fiscal year ended March 31, 2018, comprised of a provisional repatriation tax expense of \$17.8 million

and a provisional net deferred tax expense of \$4.9 million. The adjustment to GAAP net income (loss) available to Virtusa common stockholders only includes these impacts. It does not include the ongoing impacts of the lower U.S. statutory rate on current year earnings. The GAAP earnings (loss) per share impact on the Tax Act adjustment using GAAP weighted average shares outstanding was \$(0.77). The non-GAAP earnings per share impact on the Tax Act adjustment using non-GAAP weighted average shares outstanding was \$(0.70).

- (9) Non-recurring third party financing costs related to the new credit facility.

Liquidity and capital resources

We have financed our operations primarily from sales of shares of common stock, cash from operations, debt financing and from sales of shares of Series A Convertible Preferred Stock.

We do not believe the deemed repatriation tax on accumulated foreign earnings related to the Tax Act will have a significant impact on our cash flows in any individual fiscal year.

During the fiscal year ended March 31, 2018, we implemented certain cost saving and restructuring initiatives. During the fiscal year ended March 31, 2018, the Company incurred costs of \$1.4 million primarily related to termination benefits, out of which we paid \$1.0 million during the fiscal year ended March 31, 2018.

To strengthen our digital engineering capabilities and establish a solid base in Silicon Valley, on March 12, 2018, we entered into an equity purchase agreement by and among the Company, eTouch Systems Corp. (“eTouch US”) and each of the equityholders of eTouch US to acquire all of the outstanding shares of eTouch US, and certain of the Company’s Indian subsidiaries entered into a share purchase agreement by and among those Company subsidiaries, eTouch Systems (India) Pvt. Ltd (“eTouch India,” together with eTouch US, “eTouch”) and the equityholders of eTouch India to acquire all of the outstanding shares of eTouch India.

Under the terms of the equity purchase agreement and the share purchase agreement, on March 12, 2018, we acquired all of the outstanding shares of eTouch US and eTouch India for approximately \$140.0 million in cash, subject to certain adjustments, with up to an additional \$15.0 million set aside for retention bonuses to be paid to eTouch management and key employees, in equal installments on the first and second anniversary of the transaction. The purchase price will be paid in three tranches with \$80.0 million paid at closing, \$42.5 million on the 12-month anniversary of the close of the transaction, and \$17.5 million on the 18-month anniversary of the close of the transaction, subject in each case to certain adjustments.

On March 3, 2016, to create a unique, fully integrated provider of comprehensive solutions and services across the banking and financial services industry, expand our addressable market, and enable us to pursue larger consulting and outsourcing contracts, our Indian subsidiary acquired approximately 51.7% of the fully diluted shares of Polaris Consulting & Services Limited (“Polaris”) for approximately \$168.3 million in cash (the “Polaris Transaction”) pursuant to a share purchase agreement dated as of November 5, 2015, by and among our Indian subsidiary, Polaris and the promoter sellers named therein. On April 6, 2016, in connection with the Polaris Transaction, we completed an unconditional mandatory open offer (the “Mandatory Tender Offer”) to purchase an additional 26% of the fully diluted outstanding shares of Polaris from Polaris’ public shareholders for an aggregate purchase price of approximately \$89.1 million (Indian rupees 5,935 million). Upon the closing of the Mandatory Tender Offer, our ownership interest in Polaris increased from approximately 51.7% to 77.7% of Polaris’ fully diluted shares outstanding, and from approximately 52.9% to 78.8% of Polaris’ basic shares outstanding. In order to comply with the applicable Indian rules on takeovers, during the three months ended December 31, 2016, we sold 3.7% of our shares of Polaris common stock through a public offering for approximately

\$7.6 million in proceeds, net of \$0.2 million in brokerage fees and taxes, which reduced our ownership interest in Polaris from 78.6% to 74.9% of Polaris' basic shares of common stock outstanding.

In connection with our acquisition of Polaris, on October 26, 2017, we announced our intention to commence through our Indian subsidiary, a process that could lead to the delisting of our Indian subsidiary, Polaris, from all stock exchanges on which Polaris' common shares are listed. On February 12, 2018, we consummated the Polaris delisting offer to all public shareholders of Polaris in accordance with the provisions of the SEBI Delisting Regulations, which resulted in an accepted exit price of INR 480 per share ("Exit Price"), for an aggregate consideration of approximately \$145.0 million, exclusive of transaction and closing costs, resulting in Virtusa India increasing its ownership interest in Polaris from approximately 74% to approximately 93% of the share capital of Polaris. Upon receipt of final approvals from the stock exchanges on which Polaris is traded, the common shares of Polaris will be delisted from all public exchanges on which the Polaris shares are traded. For a period of one year following the date of the delisting from all stock exchanges on which Polaris common shares are listed, Virtusa India will permit, in compliance with SEBI Delisting Regulations, the public shareholders of Polaris to tender their shares for sale to Virtusa India at the Exit Price. If all the remaining shares of Polaris are tendered at the Exit Price, we would pay an additional consideration of approximately \$56.0 million.

In connection with, and as part of the Polaris acquisition, on November 5, 2015, we entered into an amendment with Citigroup Technology, Inc. ("Citi") and Polaris, which became effective upon the closing of the Polaris Transaction, pursuant to which, (i) Citi agreed to appoint the Company and Polaris as a preferred vendor for Global Technology Resource Strategy ("GTRS") for the provision of IT services to Citi on an enterprise wide basis ("GTRS Preferred Vendor"), (ii) the Company agreed to certain productivity savings and associated reduced spend commitments for a period of two years, which, if not achieved, would require the Company to provide certain minimum discounts to Citi (which is now satisfied), (iii) the parties amended Polaris' master services agreement with Citi such that the Company would also be deemed a contracting party and the Company would assume, and agree to perform, or cause Polaris to perform, all applicable obligations under the master services agreement, as amended by the amendment (the "Citi/Virtusa MSA"), and (iv) Virtusa agreed to terminate Virtusa's existing master services agreement with Citi, and have the Citi/Virtusa MSA be the sole surviving agreement.

In support of the delisting transaction and the eTouch acquisition, on February 6, 2018, we entered into a \$450.0 million credit agreement ("Credit Agreement") with a syndicated bank group jointly lead by JP Morgan Chase Bank, N.A. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, which amends and restates our prior \$300.0 million credit agreement (which we had originally entered into on February 25, 2016 ("Prior Credit Agreement") to fund the Polaris acquisition and Mandatory Tender Offer) and provides for a \$200.0 million revolving credit facility, a \$180.0 million term loan facility, and a \$70.0 million delayed-draw term loan. We drew down \$180.0 million under the term loan of the Credit Agreement and \$55.0 million under the revolving credit facility under the Credit Agreement to repay in full the amount outstanding under the Prior Credit Agreement and fund the Polaris delisting transaction. On March 12, 2018, we drew down the \$70 million delayed draw to fund the eTouch acquisition. Interest under this new credit facility accrues at a rate per annum of LIBOR plus 3.0%, subject to step-downs based on the Company's ratio of debt to EBITDA. We intend to enter into an interest rate swap agreement to minimize interest rate exposure. The Credit Agreement includes maximum debt to EBITDA and minimum fixed charge coverage covenants. The term of the Credit Agreement is five years, ending February 6, 2023 (see Note 11 to the Consolidated Financial Statements for further information). At March 31, 2018, the outstanding amount under the Credit Agreement was 305.0 million. At March 31, 2018, the interest rates on the term loan and line of credit were 4.63% and 4.45% respectively.

The Credit Agreement has financial covenants that require that the Company maintain a Total Leverage Ratio of not more than 3.50 to 1.00 commencing with December 31, 2017 and for all quarters thereafter ending prior to December 31, 2019 and of not more than 3.25 to 1.00 commencing with December 31, 2019 and for all quarters thereafter ending prior to September 30, 2020, and 3.00 to 1.00,

commencing with September 30, 2020 and tested for all quarters thereafter. The financial covenants also require that the Company maintain a Fixed Charge Coverage Ratio, commencing on December 31, 2017, of not less than 1.25 to 1.00, as of the last day of any Reference Period. For purposes of these covenants, “Total Leverage Ratio” means, as of the last day of any fiscal quarter, the ratio of Funded Debt to Adjusted EBITDA for the reference period ended on such date. “Funded Debt” refers generally to total indebtedness to third-parties for borrowed money, capital leases, deferred purchase price and earn-out obligations and related guarantees and “Adjusted EBITDA” is defined as consolidated net income plus (a) (i) GAAP depreciation and amortization, (ii) non-cash equity-based compensation expenses, (iii) fees and expenses incurred during such period in connection with the Credit Facility and loans made thereunder, (iv) fees and expenses incurred during such period in connection with any permitted acquisition, (v) one-time regulatory charges, (vi) other extraordinary and non-recurring losses or expenses, and (vii) all other non-cash charges, expenses and losses for such period, (viii) taxes net of tax credits, minus (b) (i) extraordinary or non-recurring income or gains for such period, and (ii) any cash payments made during such period in respect of non-cash charges, expenses or losses described in clauses (a)(ii), (a)(v) and (a)(vi) above taken in a prior period, subject to other adjustments and certain caps and limits on adjustments. The Fixed Charge Coverage Ratio is calculated under the Credit Agreement generally as the ratio of Adjusted EBITDA, excluding capital expenditures made during such period (to the extent not financed with indebtedness (other than Revolving Loans), an issuance of equity interests or capital contributions, or proceeds of asset sales, the proceeds of casualty insurance used to replace or restore assets, to fixed charges (regularly scheduled consolidated interest expense paid in cash, plus regularly scheduled dividends paid in cash for such period on or with respect to any Disqualified Equity Interests, including the Orogen Series A Preferred Stock, regularly scheduled amortization payments on indebtedness in cash, income taxes paid in cash and the interest component of capital lease obligation payments), on a consolidated basis.

The Credit Facility is secured by substantially all of the Company’s assets, including all intellectual property and all securities in domestic subsidiaries (other than certain domestic subsidiaries where the material assets of such subsidiaries are equity in foreign subsidiaries), subject to customary exceptions and exclusions from the collateral. All obligations under the Credit Agreement are unconditionally guaranteed by substantially all of the Company’s material direct and indirect domestic subsidiaries, with certain exceptions. These guarantees are secured by substantially all of the present and future property and assets of the guarantors, with certain exclusions.

At March 31, 2018, the Company is in compliance with our debt covenants and have provided a quarterly certification to our lenders to that effect. We believe that we currently meet all conditions set forth in the Credit Agreement to borrow thereunder and we are not aware of any conditions that would prevent us from borrowing part or all of the remaining available capacity under the existing revolving credit facility at March 31, 2018 and through the date of this filing.

On May 3, 2017, we entered into an investment agreement with The Orogen Group (“Orogen”) pursuant to which Orogen purchased 108,000 shares of the Company’s newly issued Series A Convertible Preferred Stock, initially convertible into 3,000,000 shares of common stock, for an aggregate purchase price of \$108 million with an initial conversion price of \$36.00 (the “Orogen Preferred Stock Financing”). In connection with the investment, Vikram S. Pandit, the former CEO of Citigroup, was appointed to Virtusa’s Board of Directors. Orogen is a new operating company that was created by Vikram Pandit and Atairos Group, Inc., an independent private company focused on supporting growth-oriented businesses, to leverage the opportunities created by the evolution of the financial services landscape and to identify and invest in financial services companies and related businesses with proven business models.

Under the terms of the investment, the Series A Convertible Preferred Stock has a 3.875% dividend per annum, payable quarterly in additional shares of common stock and/or cash at our option. If any shares of Series A Convertible Preferred Stock have not been converted into common stock prior to May 3, 2024, the Company will be required to repurchase such shares at a repurchase price equal to the liquidation

preference of the repurchased shares plus the amount of accumulated and unpaid dividends thereon. If we fail to effect such repurchase, the dividend rate on the Series A Convertible Preferred Stock will increase by 1% per annum and an additional 1% per annum on each anniversary of May 3, 2024 during the period in which such failure to effect the repurchase is continuing, except that the dividend rate will not increase to more than 6.875% per annum.

In connection with the investment, we repaid \$81 million of our outstanding term loan under our Prior Credit Agreement, and our board of directors approved the repurchase of approximately \$30 million of our common stock.

In July 2016, the Company entered into 12-month forward starting interest rate swap transactions to mitigate Company's interest rate risk on Company's variable rate debt (collectively, "The Interest Rate Swap Agreements"). The Company's objective is to limit the variability of cash flows associated with changes in LIBOR interest rate payments due on the Prior Credit Agreement by using pay-fixed, receive-variable interest rate swaps to offset the future variable rate interest payments. The Company will recognize these transactions in accordance with ASC 815 "*Derivatives and Hedging*," and have designated the swaps as cash flow hedges.

The three Interest Rate Swap Agreements have an effective date of July 31, 2017 and a maturity date of July 31, 2020. As of March 31, 2018, the swaps have an aggregate notional amount of \$90 million and hedge approximately 29.5% of our outstanding debt balance. The notional amount of the swaps amortizes over the remaining swap periods. The Interest Rate Swap Agreements require the Company to make monthly fixed interest rate payments based on the amortized notional amount at a blended weighted average rate of 1.025% and the Company will receive 1-month LIBOR on the same notional amounts. The unrealized gain associated with the 2016 Swap Agreement was \$2.5 million at March 31, 2018, which represents the estimated amount that the Company would receive from the counterparties in the event of an early termination.

The counterparties to the Interest Rate Swap Agreements could demand an early termination of the 2016 Swap Agreements if we are in default under the Credit Agreement, or any agreement that amends or replaces the Credit Agreement in which the counterparty is a member, and we are unable to cure the default. An event of default under the Credit Agreement includes customary events of default and failure to comply with financial covenants, including a maximum consolidated leverage ratio commencing on December 31, 2016, of not more than 3.25 to 1.00 for the first year of the Prior Credit Agreement, of not more than 3.00 to 1.00 for the second year of the Prior Credit Agreement, and 2.75 to 1.00 thereafter, each as determined for the four consecutive quarter period ending on each fiscal quarter and a minimum consolidated fixed charge coverage ratio of 1.25 to 1.00. As of March 31, 2018, we were in compliance with these covenants. The unrealized gain associated with the 2016 Swap Agreement was \$2.5 million as of March 31, 2018, which represents the estimated amount that we would receive from the counterparties in the event of an early termination.

At March 31, 2018, we had approximately \$244.9 million of cash, cash equivalents, short term investments and long term investments, of which we hold approximately \$191.0 million of cash, cash equivalents, short term investments and long-term investments in non-U.S. locations, particularly in India, Sri Lanka and the United Kingdom. Cash in these non-U.S. locations may not otherwise be available for potential investments or operations in the United States or certain other geographies where needed, as we have stated that this cash is indefinitely reinvested in these non-U.S. locations. We do not currently plan to repatriate this cash to the United States. However, if our intent were to change and we elected to repatriate this cash back to the United States, or this cash was deemed no longer permanently invested, this cash would be subject to additional taxes and the change in such intent could have an adverse effect on our cash balances as well as our overall statement of income. Due to various methods by which cash could be repatriated to the United States in the future, the amount of taxes attributable to the cash is dependent on circumstances existing if and when remittance occurs. In addition, some countries could have tight

restrictions on the movement and exchange of foreign currencies which could further limit our ability to use such funds for global operations or capital or other strategic investments. Due to the various methods by which such earnings could be repatriated in the future, it is not practicable to determine the amount of applicable taxes that would result from such repatriation.

At March 31, 2018, our current ratio decreased compared with the fiscal year ended March 31, 2017. This was primarily driven by the deferred acquisition payments related to our eTouch acquisition. Our unbilled accounts receivable compared to total accounts receivable at March 31, 2018 of 69% was higher than the prior fiscal year ratio of 49%. During the twelve months ended March 31, 2018, we experienced fluctuations in the unbilled accounts receivable due to timing of paperwork received late in the fourth fiscal quarter ended March 31, 2018. A majority of the unbilled balance as of March 31, 2018 has subsequently been invoiced.

Beginning in fiscal 2009, our U.K. subsidiary entered into an agreement with an unrelated financial institution to sell, without recourse, certain of its European-based accounts receivable balances from one client to such financial institution. During the fiscal year ended March 31, 2018, we sold \$25.7 million of receivables under the terms of the financing agreement. Fees paid pursuant to this agreement were immaterial during the fiscal year ended March 31, 2018. We may elect to use this program again in future periods. However, we cannot provide any assurance that this or any other financing facilities will be available or utilized in the future.

We expect capital expenditures made in the normal course of business during the fiscal year ended March 31, 2019, without regarding to any past or future acquisitions, to be consistent with our historical capital expenditures.

Cash flows

The following table summarizes our cash flows for the periods presented:

	Fiscal Year Ended March 31,		
	2018	2017	2016
	(In thousands)		
Net cash provided by operating activities	\$ 62,699	\$ 27,610	\$ 55,590
Net cash provided by (used in) investing activities .	(52,827)	67,015	(217,936)
Net cash (used in) provided by financing activities .	37,442	(96,384)	187,667
Effect of exchange rates on cash	2,675	(2,319)	(1,137)
Net (decrease) increase in cash and cash equivalents	49,989	(4,078)	24,184
Cash and cash equivalents, beginning of fiscal year	<u>144,908</u>	<u>148,986</u>	<u>124,802</u>
Cash and cash equivalents, end of fiscal year	<u>\$194,897</u>	<u>\$144,908</u>	<u>\$ 148,986</u>

Net cash provided by operating activities

Net cash provided by operating activities increased in the fiscal year ended March 31, 2018 compared to the fiscal year ended March 31, 2017, primarily driven by an overall increase in liabilities expected to be paid in subsequent years (\$17.8 million related to taxes payable attributable to the Tax Act is expected to be paid over the next 8 years).

Net cash provided by operating activities decreased in the fiscal year ended March 31, 2017 compared to the fiscal year ended March 31, 2016, primarily driven by a decrease in net income during the fiscal year ended March 31, 2017, compared to fiscal year ended March 31, 2016.

- (5) We accrue and contribute to benefit funds covering our employees in India and Sri Lanka. The amounts in the table represent the expected benefits to be paid out over the next ten years. We are not able to quantify expected benefit payments beyond ten years with any certainty. We make periodic contributions to the plans such that the unfunded amounts are immaterial.
- (6) Relates to build-out of various facilities in India, and other purchase commitments, net of advances.
- (7) Relates to our Series A Convertible Preferred Stock.
- (8) Relates to the eTouch acquisition.
- (9) Relates to an acquisition of a small consulting company located in India.

At March 31, 2018, we had \$7.5 million of unrecognized tax benefits. This represents the tax benefits associated with tax positions on our domestic and international tax returns that have not been recognized on our financial statements due to uncertainty regarding their resolution. Resolution of the related tax positions with the relevant tax authorities may take years to complete, since such timing is not entirely within our control. It is reasonably possible that within the next 12 months certain positions will be resolved, which could result in a decrease in unrecognized tax benefits. These decreases may be offset by increases to unrecognized tax benefits if new positions are identified. The resolution or settlement of positions with the relevant taxing authorities is at various stages and therefore it is not practical to estimate the eventual cash flows by period that may be required to settle these matters.

In connection with our acquisition of Polaris, on October 26, 2017, we announced our intention to commence through our Indian subsidiary, a process that could lead to the delisting of our Indian subsidiary, Polaris, from all stock exchanges on which Polaris' common shares are listed. On February 12, 2018, we consummated the Polaris delisting offer to all public shareholders of Polaris in accordance with the provisions of the SEBI Delisting Regulations, which resulted in an accepted exit price of INR 480 per share ("Exit Price"), for an aggregate consideration of approximately \$145.0 million, exclusive of transaction and closing costs, resulting in Virtusa India increasing our ownership interest in from approximately 74% to approximately 93% of the share capital of Polaris. Upon receipt of final approvals from the stock exchanges on which Polaris is traded, the common shares of Polaris will be delisted from all public exchanges on which the Polaris shares are traded. For a period of one year following the date of the delisting from all stock exchanges on which Polaris common shares are listed, Virtusa India will permit, in compliance with SEBI Delisting Regulations, the public shareholders of Polaris to tender their shares for sale to Virtusa India at the Exit Price. If all the remaining shares of Polaris are tendered at the Exit Price additional consideration required would be approximately \$56.0 million.

Off-balance sheet arrangements

We do not have any investments in special purpose entities or undisclosed borrowings or debt.

We have entered into foreign currency derivative contracts with the objective of limiting our exposure to changes in the Indian rupee, the U.K. pound sterling, the euro and the Swedish Krona as described below and in "Quantitative and Qualitative Disclosures about Market Risk."

We maintain a foreign currency cash flow hedging program designed to further mitigate the risks of volatility in the Indian rupee against the U.S. dollar and U.K. pound sterling as described below in "Quantitative and Qualitative Disclosures about Market Risk." From time to time, we may also purchase multiple foreign currency forward contracts designed to hedge fluctuation in foreign currencies, such as the U.K. pound sterling, euro and Swedish Krona against the U.S. dollar to minimize the impact of foreign currency fluctuations on foreign currency denominated revenue and expenses. Other than these foreign currency derivative contracts, we have not entered into off-balance sheet transactions, arrangements or other relationships with unconsolidated entities or other persons that are likely to affect liquidity or the availability of or requirements for capital resources.

Recent accounting pronouncements

Adoption of new accounting pronouncements

In March 2016, the FASB issued an update (ASU 2016-09) to the standard on Compensation—Stock Compensation, which simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Upon adoption, entities will be required to apply a modified retrospective, prospective or retrospective transition method depending on the specific section of the guidance being adopted. We adopted this guidance effective April 1, 2017 and the following describe the results of adoption:

- We prospectively recognized income tax benefit of \$1.5 million in the income tax expense line item of our consolidated statements of income for the fiscal year ended March 31, 2018, respectively, related to excess tax benefits on stock options;
- We changed our accounting policy from estimated forfeitures to actual forfeitures effective April 1, 2017. The cumulative impact of the change in the accounting policy did not have a material impact on our consolidated financial statements, therefore the prior period amounts have not been restated;
- We elected to adopt cash flow presentation of excess tax benefits retrospectively where these benefits are classified along with other income tax cash flows as operating cash flows. Accordingly, prior period amounts in our consolidated statement of cash flows have been restated;
- We adopted cash flow presentation of taxes paid when an employer withholds shares for tax-withholding purposes retrospectively and classified as a financing activity in the our statement of cash flows. Accordingly, prior period amounts have been restated;
- The remaining amendments to this standard, as noted above, are either not applicable, or do not change our current accounting practices and thus do not impact its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. These amendments are intended to better align a company's risk management strategies and financial reporting for hedging relationships. Under the new guidance, more hedging strategies will be eligible for hedge accounting and the application of hedge accounting is simplified. In addition, the new guidance amends presentation and disclosure requirements. The guidance is effective for fiscal years beginning after December 15, 2018 with early adoption permitted, including the interim periods within those years. The guidance requires the use of a modified retrospective approach. We have early adopted this guidance during the three months ended March 31, 2018. The adoption of this update did not have a material impact on our consolidated financial statements.

Recently issued accounting pronouncements not yet adopted

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on April 1, 2018. Early application is permitted but not before periods beginning on or after January 1, 2017. In March, April and May 2016, the FASB issued updates to the new revenue standard to clarify the implementation guidance on principal versus agent considerations for reporting revenue gross versus net, identifying performance obligations, accounting for licenses of intellectual property, transition, contract modifications,

collectability, non-cash consideration and presentation of sales and other similar taxes with the same effective date. The standard permits the use of either the retrospective or cumulative effect transition method. We have adopted the standard effective April 1, 2018 using the modified retrospective method applied to those contracts which were not completed as of that date.

We have completed our assessment of existing customer contracts and current accounting policies to identify and assess the potential differences that would result from applying the requirements of the new standard including costs to obtain and fulfill a contract. Based on the assessment procedures completed, we have recognized an immaterial adjustment to retained earnings as of April 1, 2018. We expect revenue recognition across our portfolio of services to remain largely unchanged and expect slightly longer periods of amortization for costs to fulfill after adoption. Additionally, we are in the final stages of completion on changes to our processes and controls to meet the standard's updated disclosure requirements.

In January 2016, the FASB issued an update (ASU 2016-01) to the standard on financial instruments. The update significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The update also amends certain disclosure requirements. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Upon adoption, entities will be required to make a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective. However, the specific guidance on equity securities without readily determinable fair value will apply prospectively to all equity investments that exist as of the date of adoption. Early adoption of certain sections of this update is permitted. The adoption of this guidance on April 1, 2018 did not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued an update (ASU 2016-02) to the standard on leases to increase transparency and comparability among organizations. The new standard replaces the existing guidance on leases and requires the lessee to recognize a right-of-use asset and a lease liability for all leases with lease terms equal to or greater than twelve months. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize total lease expense on a straight-line basis. For public business entities this standard is effective for the annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption of this new standard is permitted. Entities will be required to use a modified retrospective transition which provides for certain practical expedients. We are currently evaluating the effect the new standard will have on the consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Measurement of Credit Losses on Financial Instruments, which modifies the measurement of expected credit losses of certain financial instruments. This standard update requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the effect of this new standard will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). This update is intended to reduce diversity in practice in how certain cash receipts and payments are classified in the statement of cash flows. This standard update addresses eight specific cash flow issues, including debt prepayment or extinguishment costs, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, and distributions from certain equity method investees. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The guidance requires application using a retrospective transition method. The adoption of this guidance on April 1, 2018 did not have an impact on the consolidated financial statements as our current presentation of consolidated statement of cash flows is consistent with the new guidance.

In October 2016, the FASB issued ASU 2016-16, an update to the standard on income taxes. This new standard requires the recognition of current and deferred income taxes when an intra-entity transfer of assets other than inventory occurs. The update is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2017. Early adoption is permitted in the first interim period. Upon adoption, the entities will be required to use a modified retrospective transition approach. The adoption of this guidance on April 1, 2018 did not have an impact on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash (Topic 230), which is intended to reduce diversity in practice on how changes in restricted cash are classified and presented in the statement of cash flows. This ASU requires amounts generally described as restricted cash to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The amendments in this update should be applied using a retrospective transition method to each period presented. The adoption of this guidance will impact our presentation of statement of our consolidated statements of cash flows. As of March 31, 2018 and March 31, 2017, our restricted cash was \$0.3 million and \$0.2 million, respectively.

In January 2017, the FASB issued ASU 2017-01, an update on business combinations, which clarifies the definition of a business. The update requires a business to include at least an input and a substantive process that together significantly contribute to the ability to create outputs. The update also states that the definition of a business is not met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2018. Upon adoption, entities will be required to apply the update prospectively. The adoption of this guidance on April 1, 2018 did not have an impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, an update on goodwill, which eliminates the need to calculate the implied fair value of goodwill when an impairment is indicated. The update states that goodwill impairment is measured as the excess of a reporting unit's carrying value over its fair value, not to exceed the carrying amount of goodwill. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2020. Early adoption is permitted for any impairment tests performed after January 1, 2017. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, a guidance on presentation of net periodic pension cost and net periodic postretirement benefit cost. The new standard requires that an employer disaggregate the service costs components of net benefit cost. The employer is required to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component, such as in other income and expense. The guidance is effective for fiscal years beginning after December 15, 2017. The adoption of this guidance on April 1, 2018 did not have a material impact on our consolidated financial statements. The Company's current presentation of service cost components is consistent with the requirements of the new standard. We will present the other components of net periodic pension cost within other (income) expense beginning April 1, 2018.

In March 2017, FASB issued ASU 2017-08, "Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." The amendments in this update shorten the amortization period for certain callable debt securities that are held at a premium. The amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount, which would be amortized to maturity. This ASU is effective for fiscal years and interim periods within those fiscal years, beginning after December 15,

2018, which for us is the first quarter ending December 31, 2019. Early adoption is permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Scope of Modification Accounting, an update that provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting under ASC 718, Compensation—Stock Compensation. Under the amendments in ASU 2017-09, an entity should account for the effects of a modification unless all of the following criteria are met: 1) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified—if the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification; 2) the vesting conditions of the modified award are the same as the conditions of the original award immediately before the original award is modified; 3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period for which financial statements have not yet been issued. The adoption of this guidance on April 1, 2018 did not have an impact on our consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815). The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. We are currently evaluating the effect the new standard will have on our consolidated financial statements and related disclosures.

In February 2018, the FASB issued 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this Update also require certain disclosures about stranded tax effects. The guidance is effective for fiscal years beginning after

December 15, 2018 with early adoption permitted, including interim periods within those years. We are currently evaluating the effect the new standard will have on our consolidated financial statements and related disclosures.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

Foreign currency exchange rate risk

We are exposed to foreign currency exchange rate risk in the ordinary course of business. We have historically entered into, and in the future we may enter into, foreign currency derivative contracts to minimize the impact of foreign currency fluctuations on both foreign currency denominated assets and forecasted expenses. The purpose of this foreign exchange policy is to protect us from the risk that the recognition of and eventual cash flows related to Indian rupee denominated expenses might be affected by changes in exchange rates. Some of these contracts meet the criteria for hedge accounting as cash flow hedges (See Note 20 of the notes to our financial statements included herein for a description of recent hedging activities).

We evaluate our foreign exchange policy on an ongoing basis to assess our ability to address foreign exchange exposures on our balance sheet, statement of income and operating cash flows from all foreign currencies, including most significantly the U.K. pound sterling, the Indian rupee, and the Sri Lankan rupee.

We have two 18 month rolling programs comprised of a series of foreign exchange forward contracts that are designated as cash flow hedges. One program is designed to mitigate the impact of volatility in the U.S. dollar equivalent of our Indian rupee denominated expenses. The second program was assumed as part of the Polaris acquisition and is intended to mitigate the volatility of the U.S. dollar denominated revenue that is translated into Indian rupees. While these hedges are achieving the designed objective, upon consolidation they may cause volatility in revenue. The U.S. dollar equivalent notional value of all outstanding foreign currency derivative contracts at March 31, 2018 was \$140.3 million. The outstanding contracts at March 31, 2018 are scheduled to mature each month through June 28, 2019. At March 31, 2018, the net unrealized gain on our outstanding cash flow hedge contracts was \$1.1 million. Based upon a sensitivity analysis of our cash flow hedge contracts at March 31, 2018, which estimates the fair value of the contracts based upon market exchange rate fluctuations, a 10% change in the foreign currency exchange rate against the U.S. dollar with all other variables held constant would have resulted in an increase or decrease in fair value of approximately \$13.4 million.

The U.K. pound sterling, Swedish krona and the euro exchange fluctuations can have an unpredictable impact on our U.K. pound sterling, Swedish krona and the euro revenues generated, and costs incurred. In response to this volatility, we have entered into hedging transactions designed to hedge our forecasted revenue and expenses denominated in the U.K. pound sterling, the Swedish krona as well as the euro. These derivative contracts have maximum duration of 92 days and do not meet the criteria for hedge accounting. Such hedges may not be effective in mitigating this currency volatility. These hedges are designed to reduce the negative impact of a weaker U.K. pound sterling, Swedish krona or the euro, however they also reduce the positive impact of a stronger U.K. pound sterling, Swedish krona or the euro.

Interest rate risk

In support of the delisting transaction and the eTouch acquisition, on February 6, 2018, we entered into a \$450.0 million credit agreement (“Credit Agreement”) with a syndicated bank group jointly lead by JP Morgan Chase Bank, N.A. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, which amends and restates our prior \$300.0 million credit agreement (which we had originally entered into on February 25, 2016 (“Prior Credit Agreement”) to fund the Polaris acquisition and Mandatory Tender Offer) and provides for a \$200.0 million revolving credit facility, a \$180.0 million term loan facility, and a \$70.0 million delayed-draw term loan. Virtusa drew down \$180.0 million under the term loan of the Credit Agreement

and \$55.0 million under the revolving credit facility under the Credit Agreement to repay in full the amount outstanding under the Prior Credit Agreement and fund the Polaris delisting transaction. On March 12, 2018, the Company drew down the \$70 million delayed draw to fund the eTouch acquisition. Interest under this new credit facility accrues at a rate per annum of LIBOR plus 3.0%, subject to step-downs based on the Company's ratio of debt to EBITDA. We intend to enter into an interest rate swap agreement to minimize interest rate exposure. The Credit Agreement includes maximum debt to EBITDA and minimum fixed charge coverage covenants. The term of the Credit Agreement is five years, ending February 6, 2023. At March 31, 2018, the interest rate on the Credit Facility was 4.63%. At March 31, 2018, the outstanding amount under the Credit Agreement was \$305.0 million.

We do not believe we are exposed to material direct risks associated with changes in interest rates other than with respect to our Existing Credit Facility, our cash and cash equivalents, short term investments and long term investments. We performed a sensitivity analysis to determine the effect of interest rate fluctuations. At March 31, 2018, we had \$305.0 million in outstanding debt, a 100 basis point increase in market interest rates would have a \$1.7 million change in our interest expense and a 100 basis point decrease in market interest rates would have a \$2.7 million change in our interest expense. At March 31, 2018, we had \$244.9 million in cash and cash equivalents, short term investments and long term investments, the interest income from which is affected by changes in interest rates. Our invested securities primarily consist of government sponsored entity bonds, money market mutual funds, commercial paper and corporate debts. Our investments in debt securities are classified as "available for sale" and are recorded at fair value. Our "available for sale" investments are sensitive to changes in interest rates. As interest rate changes would result in a change in the net fair value of these financial instruments due to the difference between the market interest rate and the market interest rate at the date of purchase of the financial instrument. A 100 basis point increase or decrease in market interest rates at March 31, 2018 would impact the net fair value of such interest sensitive financial instruments by \$0.2 million.

Information provided by the sensitivity analysis does not necessarily represent the actual changes that would occur under normal market conditions.

Concentration of credit risk

Financial instruments which potentially expose us to concentrations of credit risk primarily consist of cash and cash equivalents, short-term investments and long-term investments, accounts receivable, derivative contracts, other financial assets and unbilled accounts receivable. We place our operating cash, investments and derivatives in highly-rated financial institutions. We adhere to a formal investment policy with the primary objective of preservation of principal, which contains credit rating minimums and diversification requirements. We believe that our credit policies reflect normal industry terms and business risk. We do not anticipate non-performance by the counterparties as we invest with highly-rated financial institutions and, accordingly, do not require collateral. Credit losses and write-offs of accounts receivable balances have historically not been material to our consolidated financial statements and have not exceeded our expectations.

Item 8. Financial Statements and Supplementary Data.

**Virtusa Corporation and Subsidiaries
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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Virtusa Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Virtusa Corporation and subsidiaries (the Company) as of March 31, 2018 and 2017, the related consolidated statements of income (loss), comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2018, and the related notes and financial statement schedule II, Valuation and Qualifying Accounts (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have 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 March 31, 2018, 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 May 25, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2004.

Boston, Massachusetts
May 25, 2018

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Virtusa Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited Virtusa Corporation's and subsidiaries' (the Company) internal control over financial reporting as of March 31, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2018, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of March 31, 2018 and 2017, and the related consolidated statements of income (loss), comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2018, and related notes and financial statement schedule II, Valuation and Qualifying Accounts (collectively, the consolidated financial statements), and our report dated May 25, 2018 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired eTouch Systems Corp. and eTouch Systems (India) Pvt. Ltd during the fiscal year-ended March 31, 2018, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of March 31, 2018, eTouch Systems Corp. and eTouch Systems (India) Pvt. Ltd's internal control over financial reporting associated with 14.5% of total assets (of which 11.9% represents goodwill and intangible assets) and 0.6% of total revenues included in the consolidated financial statements of the Company as of and for the year ended March 31, 2018. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of eTouch Systems Corp. and eTouch Systems (India) Pvt. Ltd.

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 Report of Management 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 of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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/ KPMG LLP

Boston, Massachusetts

May 25, 2018

Virtusa Corporation and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 194,897	\$144,908
Short-term investments	45,900	72,028
Accounts receivable, net of allowance of \$3,328 and \$1,805 at March 31, 2018 and 2017, respectively	151,455	135,453
Unbilled accounts receivable	103,829	66,122
Prepaid expenses	31,724	32,751
Restricted cash	301	174
Other current assets	21,229	28,806
Total current assets	<u>549,335</u>	<u>480,242</u>
Property and equipment, net	121,565	118,890
Investments accounted for using equity method	1,588	1,708
Long-term investments	4,140	20,057
Deferred income taxes	31,528	23,093
Goodwill	297,251	211,089
Intangible assets, net	96,001	58,361
Other long-term assets	11,772	9,980
Total assets	<u>\$1,113,180</u>	<u>\$923,420</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 29,541	\$ 20,514
Accrued employee compensation and benefits	71,500	52,582
Deferred revenue	7,908	7,479
Accrued expenses and other	91,306	33,251
Current portion of long-term debt	11,407	8,870
Income taxes payable	5,038	3,066
Total current liabilities	<u>216,700</u>	<u>125,762</u>
Deferred income taxes	21,341	26,682
Long-term debt, less current portion	288,227	176,722
Long-term liabilities	43,833	9,238
Total liabilities	<u>570,101</u>	<u>338,404</u>
Commitments and contingencies (See Note 19)		
Series A Convertible Preferred Stock: par value \$0.01 per share, 108,000 shares authorized, 108,000 shares issued and outstanding at March 31, 2018; no shares authorized or issued at March 31, 2017; redemption amount and liquidation preference of \$108,000 and \$0 at March 31, 2018 and March 31, 2017, respectively	106,996	—
Stockholders' equity:		
Undesignated preferred stock, \$0.01 par value; Authorized 5,000,000 shares at March 31, 2018 and 2017, respectively; Issued zero shares at March 31, 2018 and 2017, respectively	—	—
Common stock, \$0.01 par value; Authorized 120,000,000 shares at March 31, 2018 and 2017, respectively; Issued 32,469,092 and 31,762,214 shares at March 31, 2018 and 2017, respectively; Outstanding 29,589,093 and 29,905,511 shares at March 31, 2018 and 2017, respectively	325	318
Treasury stock, 2,879,999 and 1,856,703 common shares, at cost, at March 31, 2018 and 2017, respectively	(39,652)	(9,652)
Additional paid-in capital	260,612	305,387
Retained earnings	238,019	240,728
Accumulated other comprehensive loss	(40,681)	(39,749)
Total Virtusa stockholders' equity	<u>418,623</u>	<u>497,032</u>
Noncontrolling interest in subsidiaries	17,460	87,984
Total equity	<u>436,083</u>	<u>585,016</u>
Total liabilities, undesignated preferred stock and stockholders' equity	<u>\$1,113,180</u>	<u>\$923,420</u>

See accompanying notes to consolidated financial statements

Virtusa Corporation and Subsidiaries
Consolidated Statements of Income (Loss)
(In thousands, except per share amounts)

	Year Ended March 31,		
	2018	2017	2016
Revenue	\$1,020,669	\$858,731	\$600,302
Costs of revenue	725,445	620,950	389,310
Gross profit	295,224	237,781	210,992
Operating expenses:			
Selling, general and administrative expenses	248,837	219,410	165,672
Income from operations	46,387	18,371	45,320
Other income (expense):			
Interest income	4,264	4,115	5,420
Interest expense	(7,634)	(7,682)	(643)
Foreign currency transaction gains (losses)	(3,543)	3,009	7,050
Other, net	2,362	1,005	522
Total other income (expense)	(4,551)	447	12,349
Income before income tax expense	41,836	18,818	57,669
Income tax expense	32,888	2,561	12,649
Net income	8,948	16,257	45,020
Less: net income attributable to noncontrolling interests, net of tax .	7,694	4,399	218
Net income available to Virtusa stockholders	1,254	11,858	44,802
Less: Series A Convertible Preferred Stock dividends and accretion .	3,963	—	—
Net income (loss) available to Virtusa common stockholders	\$ (2,709)	\$ 11,858	\$ 44,802
Basic earnings (loss) per share	\$ (0.09)	\$ 0.40	\$ 1.53
Diluted earnings (loss) per share.	\$ (0.09)	\$ 0.39	\$ 1.49

See accompanying notes to consolidated financial statements

Virtusa Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
(In thousands)

	<u>Year Ended March 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net income	\$ 8,948	\$16,257	\$45,020
Other comprehensive income (loss):			
Foreign currency translation adjustments	8,262	(3,810)	(9,324)
Pension plan adjustment, net of tax effect of \$(146), \$(174), \$15	(249)	(276)	47
Unrealized gain (loss) on available-for-sale securities, net of tax effect of \$(138), \$60, \$13	(15)	78	38
Unrealized gain (loss) on effective cash flow hedges, net of tax effect of \$(4,230), \$3,655, \$1,800	<u>(10,986)</u>	<u>7,989</u>	<u>2,513</u>
Other comprehensive income (loss)	<u>\$ (2,988)</u>	<u>\$ 3,981</u>	<u>\$ (6,726)</u>
Comprehensive income	5,960	20,238	38,294
Less: comprehensive income attributable to noncontrolling interest, net of tax	<u>9,750</u>	<u>5,990</u>	<u>1,285</u>
Comprehensive income (loss) available to Virtusa stockholders	<u>\$ (3,790)</u>	<u>\$14,248</u>	<u>\$37,009</u>

See accompanying notes to consolidated financial statements

Virtusa Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity
(In thousands, except share and per share amounts)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Virtusa Stockholders' Equity	Non controlling interest	Total equity
	Shares	Amount	Shares	Amount						
Balance at March 31, 2015	30,854,979	\$309	(1,856,703)	\$ (9,652)	\$283,178	\$184,068	\$(34,128)	\$423,775	—	\$ 423,775
Proceeds from the exercise of stock options and vesting of restricted stock	432,095	4	—	—	1,385	—	—	1,389	—	1,389
Proceeds from the exercise of subsidiary stock options	—	—	—	—	1,031	—	—	1,031	—	1,031
Restricted stock awards withheld for tax	—	—	—	—	(6,927)	—	—	(6,927)	—	(6,927)
Share-based compensation	—	—	—	—	16,108	—	—	16,108	—	16,108
Subsidiary share-based compensation	—	—	—	—	71	—	—	71	—	71
Excess tax benefits from stock option exercises	—	—	—	—	2,775	—	—	2,775	—	2,775
Other	—	—	—	—	—	—	—	—	248	248
Acquisition of Polaris, noncontrolling interest portion, inclusive of \$3,517 of foreign currency translation	—	—	—	—	—	—	—	—	151,191	151,191
Other comprehensive income(loss)	—	—	—	—	—	—	(8,011)	(8,011)	1,285	(6,726)
Net income	—	—	—	—	—	44,802	—	44,802	218	45,020
Balance at March 31, 2016	<u>31,287,074</u>	<u>\$313</u>	<u>(1,856,703)</u>	<u>\$ (9,652)</u>	<u>\$297,621</u>	<u>\$228,870</u>	<u>\$(42,139)</u>	<u>\$475,013</u>	<u>\$152,942</u>	<u>\$ 627,955</u>
Proceeds from the exercise of stock options and vesting of restricted stock	475,140	5	—	—	1,479	—	—	1,484	—	1,484
Proceeds from the exercise of subsidiary stock options	—	—	—	—	1,166	—	—	1,166	—	1,166
Restricted stock awards withheld for tax	—	—	—	—	(6,102)	—	—	(6,102)	—	(6,102)
Share-based compensation	—	—	—	—	20,741	—	—	20,741	—	20,741
Subsidiary share-based compensation	—	—	—	—	1,382	—	—	1,382	—	1,382
Excess tax (expense) benefits from stock option exercises	—	—	—	—	(719)	—	—	(719)	—	(719)
Other	—	—	—	—	—	—	—	—	(50)	(50)
Purchase of Polaris additional noncontrolling interest, net of transactions costs	—	—	—	—	(4,782)	—	—	(4,782)	(84,365)	(89,147)
Sale of Polaris stock, net of transaction costs	—	—	—	—	(5,399)	—	—	(5,399)	12,635	7,236
Noncontrolling interest purchase price adjustment	—	—	—	—	—	—	—	—	4,348	4,348
Foreign currency translation on noncontrolling interest	—	—	—	—	—	—	—	—	(3,516)	(3,516)
Other comprehensive income (loss)	—	—	—	—	—	—	2,390	2,390	1,591	3,981
Net income	—	—	—	—	—	11,858	—	11,858	4,399	16,257
Balance at March 31, 2017	<u>31,762,214</u>	<u>318</u>	<u>(1,856,703)</u>	<u>(9,652)</u>	<u>305,387</u>	<u>240,728</u>	<u>(39,749)</u>	<u>497,032</u>	<u>87,984</u>	<u>585,016</u>
Proceeds from the exercise of stock options	322,317	3	—	—	4,060	—	—	4,063	—	4,063
Proceeds from the exercise of subsidiary stock options	—	—	—	—	1,837	—	—	1,837	—	1,837
Restricted stock awards vested	384,561	4	—	—	(4)	—	—	—	—	—
Restricted stock awards withheld for tax	—	—	—	—	(7,173)	—	—	(7,173)	—	(7,173)
Repurchase of common stock	—	—	(1,023,296)	(30,000)	—	—	—	(30,000)	—	(30,000)
Share-based compensation	—	—	—	—	27,230	—	—	27,230	—	27,230
Subsidiary share-based compensation	—	—	—	—	181	—	—	181	—	181
Other	—	—	—	—	—	—	—	—	(42)	(42)
Purchase of Polaris additional noncontrolling interest, net of transactions costs	—	—	—	—	(70,906)	—	—	(70,906)	(76,120)	(147,026)
Series A Convertible Preferred Stock dividends and accretion	—	—	—	—	—	(3,963)	—	(3,963)	—	(3,963)
Other comprehensive income (loss)	—	—	—	—	—	—	(932)	(932)	(2,056)	(2,988)
Net income	—	—	—	—	—	1,254	—	1,254	7,694	8,948
Balance at March 31, 2018	<u>32,469,092</u>	<u>325</u>	<u>(2,879,999)</u>	<u>(39,652)</u>	<u>260,612</u>	<u>238,019</u>	<u>(40,681)</u>	<u>418,623</u>	<u>17,460</u>	<u>436,083</u>

See accompanying notes to consolidated financial statements

Virtusa Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended March 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	\$ 8,948	\$ 16,257	\$ 45,020
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	27,537	25,852	16,479
Share-based compensation expense	27,411	22,123	16,179
Provision for doubtful accounts, net	1,248	1,015	208
Gain on disposal of property and equipment	(10)	(434)	(41)
Deferred income taxes, net	(9,946)	(10,856)	(5,398)
Foreign currency transaction (gains) losses, net	3,543	(3,009)	(7,050)
Amortization of discounts and premiums on investments	313	905	496
Amortization of debt issuance cost	1,057	1,129	109
Net changes in operating assets and liabilities, excluding effects of acquired companies:			
Accounts receivable and unbilled receivable	(36,542)	(13,508)	(17,123)
Prepaid expenses and other current assets	(9,260)	1,009	(7,832)
Other long-term assets	(1,377)	8,216	(126)
Accounts payable	4,413	(6,482)	(7,326)
Accrued employee compensation and benefits	13,772	(2,207)	8,731
Accrued expenses and other current liabilities	3,931	1,851	8,734
Income taxes payable	12,683	(8,729)	4,303
Other long-term liabilities	14,978	(5,522)	227
Net cash provided by operating activities	62,699	27,610	55,590
Cash flows from investing activities:			
Proceeds from sale of property and equipment	261	2,631	90
Purchase of short-term investments	(100,486)	(112,652)	(43,586)
Proceeds from sale or maturity of short-term investments	157,194	131,116	115,397
Purchase of long-term investments	(16,772)	(35,099)	(29,618)
Proceeds from sale or maturity of long-term investments	1,606	7,116	9,200
(Increase) decrease in restricted cash	(158)	92,704	(91,286)
Business acquisitions, net of cash acquired	(78,376)	(3,460)	(164,642)
Purchase of property and equipment	(16,096)	(15,341)	(13,491)
Net cash (used in) provided by investing activities	(52,827)	67,015	(217,936)
Cash flows from financing activities:			
Proceeds from exercise of common stock options	4,063	1,479	1,385
Proceeds from exercise of subsidiary stock options	1,837	1,166	1,031
Proceeds from debt	141,000	—	200,000
Payment of debt	(81,000)	(10,000)	—
Payment of debt issuance costs	(2,716)	—	(5,596)
Borrowings on revolving credit facility	75,000	—	20,000
Repayment of revolving credit facility	(20,000)	—	(20,000)
Payment of contingent consideration related to acquisitions	—	(830)	(2,097)
Acquisition of noncontrolling interest	(147,026)	(89,147)	—
Payment of other noncontrolling interest	(42)	(50)	—
Proceeds from subsidiary stock sale	—	7,236	—
Principal payments on capital lease obligation	(220)	(140)	(132)
Payments of withholding taxes related to net share settlements of restricted stock	(7,173)	(6,098)	(6,924)
Series A Convertible Preferred Stock proceeds, net of issuance costs of \$1,154	106,846	—	—
Repurchase of common stock	(30,000)	—	—
Payment of dividend on Series A Convertible Preferred Stock	(3,127)	—	—
Net cash provided by (used in) financing activities	37,442	(96,384)	187,667
Effect of exchange rate changes on cash and cash equivalents	2,675	(2,319)	(1,137)
Net increase (decrease) in cash and cash equivalents	49,989	(4,078)	24,184
Cash and cash equivalents, beginning of year	144,908	148,986	124,802
Cash and cash equivalents, end of year	\$ 194,897	\$ 144,908	\$ 148,986
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 5,573	\$ 7,180	\$ 33
Cash receipts from interest	\$ 4,322	\$ 3,956	\$ 5,125
Cash paid for income tax	\$ 16,116	\$ 14,314	\$ 17,137
Non cash investing activities			
Assets acquired under capital lease	—	\$ 41	\$ 125

See accompanying notes to consolidated financial statements

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(thousands, except share and per share amounts)

(1) Nature of the Business

Virtusa Corporation (the “Company”, “Virtusa”, “we”, “us” or “our”) is a global provider of digital engineering and information technology (“IT”) outsourcing services that accelerate business outcomes for our clients. We support Forbes Global 2000 clients across large, consumer facing industries like banking, financial services insurance healthcare, communications, and media and entertainment, as these clients seek to improve their business performance through accelerating revenue growth, delivering compelling consumer experiences, improving operational efficiencies, and lowering overall IT costs. We provide services across the entire spectrum of the IT services lifecycle, from strategy and consulting, to technology and user experience (“UX”) design, development of IT applications, systems integration, testing and business assurance, and maintenance and support services, including infrastructure and managed services. We help our clients solve critical business problems by leveraging a combination of our distinctive consulting approach, unique platforming methodology, and deep domain and technology expertise.

Our services enable our clients to accelerate business outcomes by consolidating, rationalizing and modernizing their core customer-facing processes into one or more core systems. We deliver cost-effective solutions through a global delivery model, applying advanced methods such as Agile, an industry standard technique designed to accelerate application development. We also use our consulting methodology, which we refer to as Accelerated Solution Design (“ASD”), which is a collaborative decision-making and design process performed with the client to ensure our solutions meet the client’s specifications and requirements. Our industry leading business transformational solutions combine deep domain expertise with our strengths in software engineering and business consulting to support our clients’ business imperative initiatives across business growth and IT operations.

Headquartered in Massachusetts, we have offices in the United States, Canada, the United Kingdom, the Netherlands, Germany, Switzerland, Sweden, Austria, the United Arab Emirates, Hong Kong, Japan, Australia and New Zealand, with global delivery centers in India, Sri Lanka, Hungary, Singapore and Malaysia, as well as near shore delivery centers in the United States.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying financial statements have been prepared on a consolidated basis and reflect the financial statements of Virtusa Corporation and all of its subsidiaries that are directly or indirectly more than 50% owned or controlled. When the Company does not have a controlling interest in an entity, but exerts a significant influence on the entity, the Company applies the equity method of accounting. For those majority-owned subsidiaries that are not 100% owned by the Company, the interests of the minority owners are accounted for as noncontrolling interests.

(b) Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including the recoverability of tangible assets, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Management re-evaluates these estimates on an ongoing basis. The most significant estimates relate to the recognition of revenue and profits based on the percentage of

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(2) Summary of Significant Accounting Policies (Continued)

completion method of accounting for fixed-price contracts, income taxes, including reserves for uncertain tax positions, deferred taxes and liabilities, intangible assets, valuation of financial instruments including derivative contracts and investments. Management bases its estimates on historical experience and on various other factors and assumptions that are believed to be reasonable under the circumstances. The actual amounts may vary from the estimates used in the preparation of the accompanying consolidated financial statements.

(c) Foreign Currency Translation

The functional currencies of the Company's non-U.S. subsidiaries are the local currency of the country in which the subsidiary operates except for Hungary, which uses the euro and certain Netherlands entities, which uses the U.S. dollar. Operating and capital expenditures of the Company's subsidiaries located in India, Sri Lanka, the Netherlands, Australia, Canada, Singapore, Malaysia, the Philippines, Germany, Austria, Sweden and the United Kingdom, are denominated in their local currency which is the currency most compatible with their expected economic results. India and Sri Lanka local expenditures form the underlying basis for intercompany transactions which are subsequently conducted in both U.S. dollars and U.K. pounds sterling. U.K. client sales contracts are primarily conducted in U.K. pounds sterling.

All transactions and account balances are recorded in the functional currency. The Company translates the value of these non-U.S. subsidiaries' local currency denominated assets and liabilities into U.S. dollars at the rates in effect at the balance sheet date. Resulting translation adjustments are recorded in stockholders' equity as a component of accumulated other comprehensive income (loss). The local currency denominated statement of income amounts are translated into U.S. dollars using the average exchange rates in effect during the period. Realized foreign currency transaction gains and losses are included in the consolidated statements of income. The Company's non-U.S. subsidiaries do not operate in "highly inflationary" countries.

(d) Derivative Instruments and Hedging Activities

The Company enters into forward foreign exchange contracts to mitigate the risk of changes in foreign exchange rates on intercompany transactions and forecasted transactions denominated in foreign currencies. The Company also enters into interest rate swaps to mitigate interest rate risk on the Company's variable rate debt. The Company designates derivative contracts as cash flow hedges and any ineffective portions if they satisfy the criteria for hedge accounting. Changes in fair values of derivatives designated as cash flow hedges are deferred and recorded as a component of accumulated other comprehensive income, net of taxes, until the hedged transactions occur and are then recognized in the consolidated statements of income, the effective components are recognized in the same line item as the underlying and any ineffective components would be recognized as other income/expense. Changes in fair value of derivatives not designated as hedging instruments are recognized immediately in the consolidated statements of income.

With respect to derivatives designated as cash flow hedges, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Company also formally assesses both at the inception of the hedge and on an ongoing basis, whether each derivative will be highly effective in

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(2) Summary of Significant Accounting Policies (Continued)

offsetting changes in fair values or cash flows of the hedged item. If the Company determines that a derivative or a portion thereof is not highly effective as a hedge, or if a derivative ceases to qualify for hedge accounting, the Company prospectively discontinues hedge accounting with respect to that derivative.

(e) Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with an initial maturity of three months or less from the date of purchase to be cash equivalents. At March 31, 2018, cash equivalents consisted of money market instruments and certificates of deposit. The Company had short-term and long-term restricted cash totaling \$338 and \$178 at March 31, 2018 and 2017, respectively. Restricted cash includes escrow deposits related to acquisitions, restricted deposits with banks to secure the import of computer and other equipment and bank guarantees associated with the purchase of property and equipment of the Company's facilities in India.

(f) Investment Securities

The Company classifies all debt and equity securities as "available for sale". These securities are classified as short-term investments and long-term investments on the consolidated balance sheet based on their maturity dates and are carried at fair market value. Any unrealized gains and losses on available for sale securities are reported in accumulated other comprehensive income, net of tax, as a separate component of stockholders' equity unless the decline in value is deemed to be other-than-temporary, in which case, investments are written down to fair value and the loss is charged to the consolidated statement of income. Any realized gains and losses on trading securities are charged to the consolidated statement of income. The Company determines the cost of the securities sold based on the specific identification method.

The Company conducts a periodic review and evaluation of its investment securities to determine if the decline in fair value of any security is deemed to be other-than-temporary. Other-than-temporary impairment losses are recognized on securities when: (i) the holder has an intention to sell the security; (ii) it is more likely than not that the security will be required to be sold prior to recovery; or (iii) the holder does not expect to recover the entire amortized cost basis of the security. Other-than-temporary losses are reflected in earnings as a charge against gain on sale of investments to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. The Company has no intention to sell any securities in an unrealized loss position at March 31, 2018 nor is it more likely than not that the Company would be required to sell such securities prior to the recovery of the unrealized losses. At March 31, 2018, the Company believes that all impairments of investment securities are temporary in nature.

(g) Goodwill and Other Intangible Assets

The Company accounts for its business combinations under the acquisition method of accounting. The Company records the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price for acquisitions over the fair value of the net assets acquired, including other intangible assets, is recorded as goodwill. Goodwill is not amortized but is tested for impairment at the reporting unit level, defined as the Company level, at least annually in the fourth

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Notes to Consolidated Financial Statements (Continued)
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(2) Summary of Significant Accounting Policies (Continued)

quarter of each fiscal year or more frequently when events or circumstances occur that indicate that it is more likely than not that an impairment has occurred. In assessing goodwill for impairment, an entity has the option to assess qualitative factors to determine whether events or circumstances indicate that it is not more likely than not that fair value of a reporting unit is less than its carrying amount. If this is the case, then performing the quantitative two-step goodwill impairment test is unnecessary. An entity can choose not to perform a qualitative assessment for any or all of its reporting units, and proceed directly to the use of the two-step impairment test. The two-step process begins with an estimation of the fair value of a reporting unit. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value. Significant judgment is applied when goodwill is assessed for impairment.

For the Company's goodwill impairment analysis, the Company operates under one reporting unit. Any impairment would be measured based upon the fair value of the related assets. In performing the first step of the goodwill impairment testing and measurement process, the Company compares its entity-wide estimated fair value to net book value to identify potential impairment. Management estimates the entity-wide fair value utilizing the Company's market capitalization, plus an appropriate control premium. Market capitalization is determined by multiplying the shares outstanding on the assessment date by the market price of the Company's common stock. If the fair value of the reporting unit is less than the book value, the second step is performed to determine if goodwill is impaired. If the Company determines through the impairment evaluation process that goodwill has been impaired, an impairment charge would be recorded in the consolidated statement of income. The Company completed the annual impairment test required during the fourth quarter of the fiscal year ended March 31, 2018 and determined that there was no impairment. The Company continues to closely monitor its market capitalization. If the Company's market capitalization, plus an estimated control premium, is below its carrying value for a period considered to be other-than-temporary, it is possible that the Company may be required to record an impairment of goodwill either as a result of the annual assessment that the Company conducts in the fourth quarter of each fiscal year, or in a future quarter if an indication of potential impairment is evident. The estimated fair value of the reporting unit on the assessment date significantly exceeded the carrying book value.

Other intangible assets acquired in a business combination are recognized at fair value using generally accepted valuation methods appropriate for the type of intangible asset and reported separately from goodwill. Intangible assets with definite lives are amortized over the estimated useful lives and are tested for impairment when events or circumstances occur that indicate that it is more likely than not that an impairment has occurred. The Company tests other intangible assets with definite lives for impairment by comparing the carrying amount to the sum of the net undiscounted cash flows expected to be generated by the asset whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount of the asset exceeds its net undiscounted cash flows, then an impairment loss is recognized for the amount by which the carrying amount exceeds its fair value.

(h) Fair Value of Financial Instruments

At March 31, 2018 and 2017, the carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, unbilled accounts receivable, restricted cash, accounts payable, accrued employee compensation and benefits, other accrued expenses and long-term

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
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(2) Summary of Significant Accounting Policies (Continued)

debt, approximate their fair values due to the nature of the items. See note 8 to the consolidated financial statements for further information of the fair value of the Company's other financial instruments.

(i) Concentration of Credit Risk and Significant Customers

Financial instruments which potentially expose the Company to concentrations of credit risk are primarily comprised of cash and cash equivalents, investments, derivatives, accounts receivable and unbilled accounts receivable. The Company places its cash, investments and derivatives in highly-rated financial institutions. The Company adheres to a formal investment policy with the primary objective of preservation of principal, which contains credit rating minimums and diversification requirements. Management believes its credit policies reflect normal industry terms and business risk. The Company does not anticipate non-performance by the counterparties and, accordingly, does not require collateral.

At March 31, 2018 and 2017, one client accounted for 10% and 11% respectively, of gross accounts receivable. Revenue from significant clients as a percentage of the Company's consolidated revenue was as follows:

	Year Ended March 31,		
	2018	2017	2016
Customer A	19%	17%	3%
Customer B	7%	3%	—

(j) Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the shorter of their lease term or the estimated useful life of the related asset. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income. Repair and maintenance costs are expensed as incurred.

(k) Long-Lived Assets

The Company reviews the carrying value of its long-lived assets or asset groups with definite useful lives to be held and used for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying value of an asset to the future net undiscounted cash flows directly associated with the asset. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying value exceeds the fair value of the asset. The Company uses a discounted cash flow approach or other methods, if appropriate, to assess fair value.

Long-lived assets to be disposed of by sale are reported at the lower of carrying value or fair value less cost to sell and depreciation is ceased. Long-lived assets to be disposed of other than by sale are considered to be held and used until disposal.

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(2) Summary of Significant Accounting Policies (Continued)

(l) Internally-Developed Software

The Company capitalizes costs incurred during the application development stage, which include costs to design the software configuration and interfaces, coding, installation and testing. Costs incurred during the preliminary project stage, along with post-implementation stages of internal use computer software, are expensed as incurred. Capitalized development costs are typically amortized over the estimated life of the software, typically three to ten years, using the straight line method, beginning with the date that an asset is ready for its intended use. At March 31, 2018 and 2017, capitalized software development costs, which include software development work in progress, were approximately \$11,022 and \$9,658, respectively. These costs were recorded in property and equipment. For the fiscal years ended March 31, 2018, 2017 and 2016, amortization of capitalized software development costs amounted to approximately \$2,377, \$1,702 and \$556, respectively.

(m) Income Taxes

Income taxes are accounted for using the asset and liability method whereby deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Changes to enacted tax rates would result in either increases or decreases in the provision for income taxes in the period of changes. The Company evaluates the realizability of deferred tax assets and recognizes a valuation allowance when it is more likely than not that all, or a portion of, deferred tax assets will not be realized.

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations in multiple jurisdictions. The Company records liabilities for estimated tax obligations in the United States and other tax jurisdictions in which it has operations (see note 14 to the consolidated financial statements). The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based upon the technical merits of the position. The tax benefit recognized in the financial statements from such a position is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Also, interest and penalties expense are recognized on the full amount of deferred benefits for uncertain tax positions. The Company's policy is to include interest and penalties related to unrecognized tax benefits in income tax expense.

(n) Revenue Recognition

The Company derives its revenue from a variety of IT consulting, technology implementation and application outsourcing services. Contracts for these services have different terms and conditions based on the scope, deliverables, and complexity of the engagement which require management to make judgments and estimates in determining the overall cost to the customer. Fees for these contracts may be in the form of time and materials or fixed price arrangements.

Revenue is recognized as work is performed and amounts are earned. The Company considers amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(2) Summary of Significant Accounting Policies (Continued)

fixed or determinable, and collectability is reasonably assured. Volume discounts are recorded as a reduction of revenue over the contractual period as services are performed.

Revenue on time and material contracts is recognized as the services are performed and amounts are earned.

Revenue from fixed price contracts related to complex design, development and customization is accounted for under the percentage of completion method. Under the percentage of completion method, management estimates the percentage of completion based upon efforts incurred as a percentage of the total estimated efforts for the specified engagement. When total cost estimates exceed revenue, the Company accrues for the estimated losses immediately. The use of the percentage of completion method requires significant judgment relative to estimating total contract revenue and efforts, including assumptions relative to the length of time to complete the project, the nature and complexity of the work to be performed, and anticipated changes in other engagement related costs. The Company's analysis of these contracts also contemplates whether contracts should be combined or segmented. The Company combines closely related contracts when all the applicable criteria under U.S. GAAP are met. Similarly, the Company may segment a project, which may consist of a single contract or a group of contracts, with varying rates of profitability, only if all the applicable criteria under U.S. GAAP are met. Estimates of total contract revenue and efforts are continuously monitored during the term of the contract and are subject to revision as the contract progresses. When revisions in estimated contract revenue and efforts are determined, such adjustments are recorded in the period in which they are first identified.

Revenue from fixed-price contracts related to consulting or other IT services is accounted for using a proportional performance method. Performance is generally measured based upon the efforts incurred to date in relation to the total estimated efforts to the completion of the contract. The cumulative impact of any change in estimates of the contract revenue is reflected in the period in which the changes become known.

Revenue from fixed-price applications management, maintenance or support engagements is recognized as earned which generally results in straight-line revenue recognition as services are performed continuously over the term of the engagement.

The Company may enter into arrangements that consist of multiple elements and in these types of arrangements the transaction price is allocated to the individual units of accounting at the inception of the arrangement based on the relative selling price. The Company uses a hierarchy to determine the selling prices to be used for allocating revenue: (i) vendor-specific objective, evidence of fair value (VSOE), (ii) third-party evidence of selling price (TPE), and (iii) best estimate of the selling price (ESP).

The Company may enter into hosting arrangements where revenue is recognized as the service is delivered, generally on a straight-line basis, over the contractual period of performance. In these types of arrangements, the Company considers the rights provided to the customer in determining whether the arrangement includes the sale of a software license.

Differences between the timing of billings and the recognition of revenue based on various methods of accounting are recorded as unbilled revenue or deferred revenue.

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(2) Summary of Significant Accounting Policies (Continued)

Revenue includes reimbursements of travel and out-of-pocket expenses, with equivalent amounts of expense recorded in costs of revenue, of \$12,924, \$12,920 and \$14,142 for the fiscal years ended March 31, 2018, 2017 and 2016, respectively.

Any tax assessed by a governmental authority that is incurred as a result of a revenue transaction (e.g. sales tax) is excluded from revenue and reported on a net basis.

(o) Costs of Revenue and Operating Expenses

Costs of revenue consist principally of salaries, employee benefits and share-based compensation expense, reimbursable and non-reimbursable travel costs, subcontractor fees, and immigration related expenses for IT professionals. Selling and marketing expenses are charged to operating expenses as incurred. Selling and marketing expenses are those expenses associated with promoting and selling the Company's services and include such items as sales and marketing personnel salaries, stock compensation expense and related fringe benefits, commissions, travel, and the cost of advertising and other promotional activities. Advertising and promotional expenses incurred were approximately \$306, \$560 and \$316 for the fiscal years ended March 31, 2018, 2017 and 2016, respectively.

General and administrative expenses include other operating items such as officers' and administrative personnel salaries, share-based compensation expense and related fringe benefits, legal and audit expenses, public company related expenses, insurance, facility costs, provision for doubtful accounts, depreciation and amortization, including amortization of purchased intangibles and operating lease expenses.

(p) Share-Based Compensation

Share-based compensation cost is determined by estimating the fair value at the grant date of the Company's common stock and expensing the total compensation cost on a straight-line basis over the requisite employee service period or for grants issued with performance conditions, on a graded-vesting basis over the requisite employee service period. The requisite service period is generally between three and four years. The Company changed its accounting policy from estimated forfeitures to actual forfeitures effective April 1, 2017 upon adoption of ASU 2016-09 Accounting Standard Update ("ASU") No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.

The allocation of total share-based compensation expense between costs of revenue and selling, general and administrative expenses was as follows:

	Year Ended March 31,		
	2018	2017	2016
Costs of revenue	\$ 895	\$ 2,501	\$ 1,204
Selling, general and administrative expenses	26,516	19,622	14,975
Total share-based compensation expense	\$27,411	\$22,123	\$16,179

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Notes to Consolidated Financial Statements (Continued)
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(2) Summary of Significant Accounting Policies (Continued)

(q) Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of clients to make required payments. The allowance for doubtful accounts is determined by evaluating the relative credit worthiness of each client, historical collections experience and other information, including the aging of the receivables. We evaluate the collectability of our accounts receivables on an on-going basis and write-off accounts when they are deemed to be uncollectible.

(r) Unbilled Accounts Receivable

Unbilled accounts receivable represent revenue earned on contracts to be billed, in subsequent periods, as per the terms of the related contracts.

(s) Recent accounting pronouncements

Adoption of new accounting pronouncements

In March 2016, the FASB issued an update (ASU 2016-09) to the standard on Compensation- Stock Compensation, which simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Upon adoption, entities will be required to apply a modified retrospective, prospective or retrospective transition method depending on the specific section of the guidance being adopted. The Company adopted this guidance effective April 1, 2017 and the following describe the results of adoption:

- The Company prospectively recognized income tax benefit of \$1,481 in the income tax expense line item of its consolidated statements of income in the fiscal year ended March 31, 2018, respectively, related to excess tax benefits on stock options;
- The Company changed its accounting policy from estimated forfeitures to actual forfeitures effective April 1, 2017. The cumulative impact of the change in the accounting policy did not have a material impact on the consolidated financial statements, therefore prior period amounts have not been restated;
- The Company elected to adopt cash flow presentation of excess tax benefits retrospectively where these benefits are classified along with other income tax cash flows as operating cash flows. Accordingly, prior period amounts in the consolidated statement of cash flows have been restated;
- The Company adopted cash flow presentation of taxes paid when an employer withholds shares for tax-withholding purposes retrospectively and classified as a financing activity in the Company's statement of cash flows. Accordingly, prior period amounts have been restated;
- The remaining amendments to this standard, as noted above, are either not applicable, or do not change the Company's current accounting practices and thus do not impact its consolidated financial statements.

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Notes to Consolidated Financial Statements (Continued)
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(2) Summary of Significant Accounting Policies (Continued)

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. These amendments are intended to better align a company's risk management strategies and financial reporting for hedging relationships. Under the new guidance, more hedging strategies will be eligible for hedge accounting and the application of hedge accounting is simplified. In addition, the new guidance amends presentation and disclosure requirements. The guidance is effective for fiscal years beginning after December 15, 2018 with early adoption permitted, including the interim periods within those years. The guidance requires the use of a modified retrospective approach. The company early adopted this guidance during the three months ended March 31, 2018. The adoption of this update did not have a material impact on the consolidated financial statements.

Recently issued accounting pronouncements not yet adopted

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on April 1, 2018. Early application is permitted but not before periods beginning on or after January 1, 2017. In March, April and May 2016, the FASB issued updates to the new revenue standard to clarify the implementation guidance on principal versus agent considerations for reporting revenue gross versus net, identifying performance obligations, accounting for licenses of intellectual property, transition, contract modifications, collectability, non-cash consideration and presentation of sales and other similar taxes with the same effective date. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has adopted the standard effective April 1, 2018 using the modified retrospective method applied to those contracts which were not completed as of that date.

The Company has completed its assessment of existing customer contracts and current accounting policies to identify and assess the potential differences that would result from applying the requirements of the new standard including costs to obtain and fulfill a contract. Based on the assessment procedures completed, the Company has recognized an immaterial adjustment to retained earnings as of April 1, 2018. The Company expects revenue recognition across its portfolio of services to remain largely unchanged and expects slightly longer periods of amortization for costs to fulfill after adoption. Additionally, the Company is in the final stages of completion on changes to our processes and controls to meet the standard's updated disclosure requirements.

In January 2016, the FASB issued an update (ASU 2016-01) to the standard on financial instruments. The update significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The update also amends certain disclosure requirements. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Upon adoption, entities will be required to make a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective. However, the specific guidance on equity securities without readily determinable fair value will apply prospectively to all equity investments that exist as of the date of adoption. Early adoption of certain sections of this update is permitted. The adoption of this guidance on April 1, 2018 did not have a material impact on the consolidated financial statements.

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(2) Summary of Significant Accounting Policies (Continued)

In February 2016, the FASB issued an update (ASU 2016-02) to the standard on leases to increase transparency and comparability among organizations. The new standard replaces the existing guidance on leases and requires the lessee to recognize a right-of-use asset and a lease liability for all leases with lease terms equal to or greater than twelve months. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize total lease expense on a straight-line basis. For public business entities this standard is effective for the annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption of this new standard is permitted. Entities will be required to use a modified retrospective transition which provides for certain practical expedients. The Company is currently evaluating the effect the new standard will have on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Measurement of Credit Losses on Financial Instruments, which modifies the measurement of expected credit losses of certain financial instruments. This standard update requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effect of this new standard will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). This update is intended to reduce diversity in practice in how certain cash receipts and payments are classified in the statement of cash flows. This standard update addresses eight specific cash flow issues, including debt prepayment or extinguishment costs, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, and distributions from certain equity method investees. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The guidance requires application using a retrospective transition method. The adoption of this guidance on April 1, 2018 did not have an impact on the consolidated financial statements, as the Company's current presentation of consolidated statement of cash flows is consistent with the new guidance.

In October 2016, the FASB issued ASU 2016-16, an update to the standard on income taxes. This new standard requires the recognition of current and deferred income taxes when an intra-entity transfer of assets other than inventory occurs. The update is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2017. Early adoption is permitted in the first interim period. Upon adoption, the entities will be required to use a modified retrospective transition approach. The adoption of this guidance on April 1, 2018 did not have an impact on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash (Topic 230), which is intended to reduce diversity in practice on how changes in restricted cash are classified and presented in the statement of cash flows. This ASU requires amounts generally described as restricted cash to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The amendments in this update should be applied using a retrospective transition method to each period presented. The adoption of this guidance on

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Notes to Consolidated Financial Statements (Continued)
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(2) Summary of Significant Accounting Policies (Continued)

April 1, 2018 will impact the Company's presentation of the consolidated statements of cash flows. As of March 31, 2018 and March 31, 2017, the Company's restricted cash was \$338 and \$178, respectively.

In January 2017, the FASB issued ASU 2017-01, an update on business combinations, which clarifies the definition of a business. The update requires a business to include at least an input and a substantive process that together significantly contribute to the ability to create outputs. The update also states that the definition of a business is not met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2018. Upon adoption, entities will be required to apply the update prospectively. The adoption of this guidance on April 1, 2018 did not have an impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, an update on goodwill, which eliminates the need to calculate the implied fair value of goodwill when an impairment is indicated. The update states that goodwill impairment is measured as the excess of a reporting unit's carrying value over its fair value, not to exceed the carrying amount of goodwill. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2020. Early adoption is permitted for any impairment tests performed after January 1, 2017. The Company is currently evaluating the impact of the new guidance on the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, a guidance on presentation of net periodic pension cost and net periodic postretirement benefit cost. The new standard requires that an employer disaggregate the service costs components of net benefit cost. The employer is required to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component, such as in other income and expense. The guidance is effective for fiscal years beginning after December 15, 2017. The adoption of this guidance on April 1, 2018 did not have a material impact on the consolidated financial statements. The Company's current presentation of service cost components is consistent with the requirements of the new standard. The Company will present the other components of net periodic pension cost within other (income) expense beginning April 1, 2018.

In March 2017, FASB issued ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The amendments in this update shorten the amortization period for certain callable debt securities that are held at a premium. The amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount, which would be amortized to maturity. This ASU is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018, which for us is the first quarter ending December 31, 2019. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Scope of Modification Accounting, an update that provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting under ASC 718, Compensation—Stock Compensation. Under the amendments in ASU 2017-09, an entity should account for the effects of a modification unless all of the

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Notes to Consolidated Financial Statements (Continued)
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(2) Summary of Significant Accounting Policies (Continued)

following criteria are met: 1) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified—if the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification; 2) the vesting conditions of the modified award are the same as the conditions of the original award immediately before the original award is modified; 3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period for which financial statements have not yet been issued. The adoption of this guidance on April 1, 2018 did not have an impact on the consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815). The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating the effect the new standard will have on its consolidated financial statements and related disclosures.

In February 2018, the FASB issued 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this Update also require certain disclosures about stranded tax effects. The guidance is effective for fiscal years beginning after

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(2) Summary of Significant Accounting Policies (Continued)

December 15, 2018 with early adoption permitted, including interim periods within those years. The Company is currently evaluating the effect the new standard will have on its consolidated financial statements and related disclosures.

(t) Reclassification

Certain prior-year amounts have been reclassified to conform to the fiscal year ended March 31, 2018 presentation.

(3) Earnings (loss) per Share

Basic earnings (loss) per share available to Virtusa common stock holders (“EPS”) is computed by dividing net income (loss), less any dividends and accretion of issuance cost on the Series A Convertible Preferred Stock by the weighted average number of shares of common stock outstanding for the period. In computing diluted EPS, the Company adjusts the numerator used in the basic EPS computation, subject to anti-dilution requirements, to add back the dividends (declared or cumulative undeclared) applicable to the Series A Convertible Preferred Stock. Such add-back would also include any adjustments to equity in the period to accrete the Series A Convertible Preferred Stock to its redemption price. The Company adjusts the denominator used in the basic EPS computation, subject to anti-dilution requirements, to include the dilution from potential shares resulting from the issuance of restricted stock units, unvested restricted stock and stock options along with the conversion of the Series A Convertible Preferred Stock to common stock. The following table sets forth the computation of basic and diluted EPS for the periods set forth below:

The components of basic earnings (loss) per share are as follows:

	Year Ended March 31,		
	2018	2017	2016
Numerators:			
Net income available to Virtusa stockholders	\$ 1,254	\$ 11,858	\$ 44,802
Less: Series A Convertible Preferred Stock dividends and accretion	(3,963)	—	—
Net income (loss) available to Virtusa common stockholders . . .	\$ (2,709)	\$ 11,858	\$ 44,802
Denominators:			
Basic weighted average common shares outstanding	29,397,350	29,650,026	29,233,861
Basic earnings (loss) per share available to Virtusa common stockholders	\$ (0.09)	\$ 0.40	\$ 1.53

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(3) Earnings (loss) per Share (Continued)

The components of diluted earnings (loss) per share are as follows:

	Year Ended March 31,		
	2018	2017	2016
Numerators:			
Net income (loss) available to Virtusa common stockholders . . .	\$ (2,709)	\$ 11,858	\$ 44,802
Less: Series A Convertible Preferred Stock dividends and accretion	—	—	—
Net income (loss) available to Virtusa common stockholders . . .	<u>\$ (2,709)</u>	<u>\$ 11,858</u>	<u>\$ 44,802</u>
Denominators:			
Basic weighted average common shares outstanding	29,397,350	29,650,026	29,233,861
Dilutive effect of Series A Convertible Preferred Stock	—	—	—
Dilutive effect of employee stock options and unvested restricted stock awards and restricted stock units	—	564,853	768,991
Dilutive effect of stock appreciation rights	—	292	2,130
Weighted average shares—diluted	<u>29,397,350</u>	<u>30,215,171</u>	<u>30,004,982</u>
Diluted earnings (loss) per share available to Virtusa common stockholders	<u>\$ (0.09)</u>	<u>\$ 0.39</u>	<u>\$ 1.49</u>

During the fiscal years ended March 31, 2018, 2017, and 2016, unvested restricted stock awards and unvested restricted stock units issuable for, and options to purchase, 918,305, 378,627 and 68,991 shares of common stock in the aggregate for such fiscal years, respectively, were excluded from the calculations of diluted earnings per share as their effect would have been anti-dilutive. For the fiscal year ended March 31, 2018, the 2,728,022 weighted average shares of the Series A Convertible Preferred Stock, on an as converted basis, were excluded from diluted earnings per share as their effect would have been anti-dilutive using the if-converted method.

(4) Acquisitions

Fiscal 2018

On March 12, 2018, (i) the Company entered into an equity purchase agreement by and among the Company, eTouch Systems Corp. (“eTouch US”) and each of the equityholders of eTouch US to acquire all of the outstanding shares of eTouch US, and (ii) certain of the Company’s Indian subsidiaries entered into a share purchase agreement by and among those Company subsidiaries, eTouch Systems (India) Pvt. Ltd (“eTouch India,” together with eTouch US, “eTouch”) and the equityholders of eTouch India to acquire all of the outstanding shares of eTouch India (together with the acquisition of eTouch US, the “Acquisition”). The acquisition strengthens our digital engineering capabilities, and establishes a solid base in Silicon Valley.

Under the terms of the equity purchase agreement and the share purchase agreement, on March 12, 2018, the Company acquired all of the outstanding shares of eTouch US and eTouch India for approximately \$140,000 in cash, subject to certain adjustments, with up to an additional \$15,000 set aside for retention bonuses to be paid to eTouch management and key employees, in equal installments on the first and second anniversary of the transaction. The purchase price will be paid in three tranches with

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
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(4) Acquisitions (Continued)

\$80,000 paid at closing, \$42,500 on the 12-month anniversary of the close of the transaction, and \$17,500 on the 18-month anniversary of the close of the transaction, subject in each case to certain adjustments. The Company utilized the net cash proceeds of a \$70,000 delayed draw term loan (the “DDTL”) funded pursuant to the Amended Credit Agreement (as defined below) and \$10,000 of cash on hand to make the payments due at the closing of the Acquisition. The Company paid an amount equal to \$66,000 to the equityholders of eTouch US, and an amount equal to \$14,000 to the equityholders of eTouch India, which together comprise the first of three tranches of the purchase price to be paid in connection with the closing of the Acquisition.

The purchase price is subject to adjustment after the closing in the event the working capital associated with eTouch deviates from a threshold amount and other contractual adjustments.

Under the purchase method of accounting, assets acquired and liabilities assumed are recorded at their estimated fair values. The Company may continue to adjust the preliminary estimated fair values after obtaining more information regarding asset valuations, liabilities assumed, and revision of preliminary estimates. The following are the preliminary fair values of assets and liabilities based on information available as of March 31, 2018 and may be subject to change during the measurement period.

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(4) Acquisitions (Continued)

A summary of the fair values for eTouch is as follows:

	<u>Amount</u>	<u>Useful Life</u>
<i>Consideration Transferred:</i>		
Cash paid at closing	\$ 80,000	
Fair value of the future payments	57,858	
Tax related liability	9,313	
	<u>147,171</u>	
Less: Cash acquired	<u>(2,224)</u>	
Total purchase price, net of cash acquired	\$144,947	
<i>Assets and Liabilities:</i>		
Cash and cash equivalents	2,224	
Accounts receivable	14,901	
Unbilled receivables	2,937	
Prepaid expenses	776	
Other current assets	473	
Property and equipment	2,798	
Other long-term assets	406	
Goodwill	85,617	
Trademark	800	2 years
Customer relationships	46,000	10 - 15 years
Accounts payable	(3,089)	
Deferred revenue	(852)	
Accrued expenses and other current liabilities	(539)	
Accrued employee compensation and benefits	(3,875)	
Income taxes payable	(20)	
Deferred income taxes	(368)	
Other long-term liabilities	<u>(1,018)</u>	
Total purchase price	<u>\$147,171</u>	

Acquisition costs of \$1,016 are recorded in selling, general and administrative expenses. The primary items that generated goodwill are the value of the acquired assembled workforces and synergies between eTouch and the Company, neither of which qualify as an amortizable intangible asset.

The following unaudited, pro forma information assumes the eTouch acquisition occurred on April 1, 2016. The unaudited pro forma consolidated results of operations are provided for informational purposes only and do not purport to represent the Company's actual consolidated results of operations had each

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(4) Acquisitions (Continued)

acquisition occurred on the dates assumed, nor are these necessarily indicative of the Company's future consolidated results of operations.

	Year Ended March 31,	
	2018	2017
Revenue	\$1,105,394	\$944,881
Net income	\$ 1,123	\$ 9,176

Revenue and net loss relating to eTouch since the acquisition dates, amounting to \$5,662 and (\$427) respectively, have been included in the consolidated statement of income for the fiscal year ended March 31, 2018. The unaudited pro forma consolidated results of operations for the fiscal year ended March 31, 2018 and 2017 included amortization of intangible assets, retention bonuses and changes in the fair value of deferred acquisition payments.

On June 29, 2017, the Company acquired certain assets of a small consulting company located in India. The purchase price was approximately \$750 payable in cash subject to a holdback payment of \$50 after one year and a payment of \$100 in earn-out consideration after two years based on certain achievement. The purchase price allocation was as follows: goodwill of \$150 and customer relationships of \$600.

Fiscal 2017

None

Fiscal 2016

On March 3, 2016, pursuant to a share purchase agreement (the "SPA"), dated as of November 5, 2015, by and among Virtusa Consulting Services Private Limited ("Virtusa India"), a subsidiary of the Company, Polaris Consulting & Services Limited ("Polaris") and the Promoter Sellers named therein, as amended, the Company completed the purchase of 53,133,127 shares, or approximately 51.7% of the fully-diluted capitalization of Polaris from certain Polaris shareholders for approximately \$168,257 (Indian rupees 11,391,365) in cash (the "Polaris SPA Transaction"). In addition, on April 6, 2016, Virtusa India completed an unconditional mandatory open offer with successful tender to purchase an additional 26% of the fully diluted outstanding shares of Polaris common stock from Polaris' public shareholders. The mandatory open offer was conducted in accordance with requirements of the Securities and Exchange Board of India ("SEBI") and the applicable Indian rules on takeovers. Virtusa India purchased 26,719,942 shares of Polaris common stock for an aggregate purchase price of approximately \$89,147 (Indian rupees 5,935,260). Pursuant to the mandatory open offer, during the fiscal year ended March 31, 2016, the Company transferred \$89,220 into an escrow account in accordance with the India takeover rules, which was recorded as restricted cash at March 31, 2016, and the mandatory open offer closed on April 6, 2016. On April 6, 2016, the restricted cash was released from the escrow account and used for settlement for the mandatory open offer.

Upon the closing of the mandatory offering, Virtusa's ownership interest in Polaris increased from approximately 51.7% to 77.7% of Polaris' fully diluted shares of common stock outstanding, and from approximately 52.9% to 78.8% of Polaris' basic shares of common stock outstanding. Under applicable

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(4) Acquisitions (Continued)

Indian rules on takeovers, Virtusa India was required to sell within one year of the settlement of the unconditional mandatory offer its shares of common stock in Polaris in excess of 75% of the basic outstanding shares of common stock of Polaris. In order to comply with the applicable Indian rules on takeovers, during the three months ended December 31, 2016, the Company sold 3.7% of its shares of Polaris common stock through a public offering. The sale offer closed on December 14, 2016, and the Company received approximately \$7,645 in proceeds, net of \$188 in brokerage fees and taxes. In addition to these costs, the Company incurred additional costs of \$409 towards professional and legal fees and expense. The Company's ownership interest in Polaris prior to the sale offer was 78.6% of the outstanding shares of common stock, and upon the closing of the sale offer, the Company's ownership interest decreased from 78.6% to 74.9% of Polaris' basic shares of common stock outstanding.

On October 26, 2017, the Company announced its intention to commence through its Indian subsidiary, Virtusa India, a process that could lead to the delisting of its Indian subsidiary, Polaris, from all stock exchanges on which Polaris' common shares are listed. In December 2017, the Company drew down \$25,000 from its old revolving credit facility to prepare to meet the minimum escrow requirements in accordance with the applicable SEBI delisting regulations. In addition, In January 2018, the Company funded the minimum escrow requirements of approximately \$96,285 for the delisting offer towards the purchase of up to 26,416,725 shares, comprised of a combination of cash and bank guarantee.

On February 5, 2018, Virtusa India closed its delisting offer to all public shareholders of Polaris in accordance with the provisions of the SEBI Delisting Regulations, which resulted in a discovered price of INR 480 per share. On February 8, 2018, Virtusa India accepted the discovered price of INR 480 per share (the "Exit Price") which will be offered to all Polaris public shareholders. Upon settlement by Virtusa India of an amount of approximately \$145,000, exclusive of transaction and closing costs, for the Polaris shares tendered during the delisting process at the Exit Price, the shareholding of Virtusa India shall increase from approximately 74% to approximately 93% of the share capital of Polaris. Upon closing of the transaction and receipt of final approvals from the stock exchanges on which Polaris is traded, the common shares of Polaris will be delisted from all public exchanges on which the Polaris shares are traded. The public shareholders of Polaris who have yet to tender their shares to Virtusa India may offer their shares for sale to Virtusa India at the Exit Price for a period of one year following the date of the delisting from all stock exchanges on which Polaris common shares are listed. On February 12, 2018 Virtusa completed its delisting offer with successful tender to purchase additional 18.77% of the outstanding shares of Polaris common stock from Polaris public shareholders. Virtusa India purchased 19,285,807 shares of Polaris common stock for an aggregate purchase price of approximately \$147,026 (Indian rupees 9,453,998) inclusive of transaction costs. On February 12, 2018, upon the closing of the delisting the Company's ownership interest in Polaris increased to 92.8%. At March 31, 2018 the Company is yet to receive the approval from SEBI for the delisting. At March 31, 2018 the Company had 92.64% ownership interest on Polaris basic shares of common stock. The Polaris shares of common stock are not redeemable at March 31, 2018 and remain classified in permanent equity.

In accordance with ASC 810-10, changes in a parent's ownership, while retaining its financial controlling interest are accounted for as equity transactions. Therefore, the purchase of additional shares of Polaris through the Company's Indian subsidiary, did result in a reduction of minority interest and a decrease to the Company's equity. In connection with the Polaris delisting, on February 6, 2018, the

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(4) Acquisitions (Continued)

Company entered into an amended and restated credit agreement (the “Credit Agreement”) dated as of February 6, 2018 (See Note 11 of the notes to the financial statements for further information).

(5) Goodwill and Intangible Assets

Goodwill:

The Company has one reportable segment at March 31, 2018. The following are details of the changes in goodwill balance at March 31, 2018:

	Amount
Balance at April 1, 2017	\$211,089
Goodwill arising from acquisitions	85,767
Foreign currency translation adjustments	395
Balance at March 31, 2018	\$297,251

The acquisition costs and goodwill balance deductible for our business acquisitions for tax purposes are \$156,965. The acquisition costs and goodwill balance not deductible for tax purposes are \$153,189 and relate to the Company’s TradeTech acquisition (closed on January 2, 2014), the Polaris acquisition and the eTouch acquisition.

Intangible Assets:

The following are details of the Company’s intangible asset carrying amounts acquired and amortization for the fiscal year ended March 31, 2018 and March 31, 2017:

	March 31, 2018			
	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:				
Customer relationships	12.1	\$129,264	\$34,296	\$94,968
Trademark	2.1	3,760	2,975	785
Technology	5.0	500	252	248
	11.8	\$133,524	\$37,523	\$96,001

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(5) Goodwill and Intangible Assets (Continued)

	March 31, 2017			
	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:				
Customer relationships	10.9	\$ 82,191	\$25,629	\$56,562
Trademark	2.1	2,962	1,513	1,449
Technology	5.0	500	150	350
	10.5	\$ 85,653	\$27,292	\$58,361

The Company's amortization expense related to intangible assets acquired through acquisitions was \$10,089, \$9,523 and \$5,491 for the fiscal years ended March 31, 2018, 2017 and 2016, respectively. The components included in the gross carrying amounts of amortization expense in the table above reflect the Company's previous acquisitions and the Company's recent acquisition of eTouch on March 12, 2018. The intangible assets are being amortized on either a straight-line basis or using the most appropriate economic pattern of consumption over their estimated useful lives.

The estimated amortization expense related to the purchased intangible assets listed in the table above at March 31, 2018 is as follows for the following fiscal years:

Fiscal year	Amount
2019	\$11,205
2020	11,391
2021	10,474
2022	9,403
2023	9,019
Thereafter	44,509
Total	\$96,001

(6) Investment Securities

At March 31, 2018 and 2017, all of the Company's investment securities were classified as available-for-sale and were carried on its balance sheet at their fair market value. A fair market value hierarchy based on three levels of inputs was used to measure each security (see note 8 to the consolidated financial statements).

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(6) Investment Securities (Continued)

The following is a summary of investment securities at March 31, 2018:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Available-for-sale securities:				
Corporate bonds:				
Current	\$25,397	\$ —	\$(126)	\$25,271
Non-current	2,293	—	(22)	2,271
Preference shares:				
Non-current	1,726	—	(70)	1,656
Agency and short-term notes:				
Current	800	—	(1)	799
Mutual funds:				
Current	1,540	11	—	1,551
Equity Shares/ Options:				
Non-current	15	198	—	213
Time deposits:				
Current	18,279	—	—	18,279
Total available-for-sale securities	<u>\$50,050</u>	<u>\$209</u>	<u>\$(219)</u>	<u>\$50,040</u>

The following is a summary of investment securities at March 31, 2017:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Available-for-sale securities:				
Corporate bonds:				
Current	\$36,722	\$ 7	\$ (55)	\$36,674
Non-current	17,511	3	(48)	17,466
Preference shares:				
Current	1,633	—	(75)	1,558
Non-current	1,829	—	(101)	1,728
Agency and short-term notes:				
Current	1,816	—	(3)	1,813
Non-current	803	—	(3)	800
Mutual funds:				
Current	17,934	371	—	18,305
Commercial paper:				
Current	2,993	—	—	2,993
Equity Shares/ Options:				
Non-current	17	46	—	63
Time deposits:				
Current	10,685	—	—	10,685
Total available-for-sale securities	<u>\$91,943</u>	<u>\$427</u>	<u>\$(285)</u>	<u>\$92,085</u>

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(6) Investment Securities (Continued)

The Company evaluates investments with unrealized losses to determine if the losses are other than temporary. The Company has determined that the gross unrealized losses on its available-for-sale securities at March 31, 2018 are temporary. The Company conducts a periodic review and evaluation of its investment securities to determine if the decline in fair value of any security is deemed to be other-than-temporary. Other-than-temporary losses are reflected in earnings as a charge against gain on sale of investments to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income.

The following tables show the gross unrealized losses and fair value of the Company's investment securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2018 and March 31, 2017:

Less Than 12 Months

	<u>Fair Value</u>	<u>Gross Unrealized Loss</u>
Available-for-sale securities at March 31, 2018:		
Corporate bonds	\$22,081	\$(135)
Agency bonds	—	—
Preference shares	—	—
Total	<u>\$22,081</u>	<u>\$(135)</u>
Available-for-sale securities at March 31, 2017:		
Corporate bonds	\$44,098	\$(103)
Agency bonds	2,613	(6)
Mutual funds	3,286	(176)
Total	<u>\$49,997</u>	<u>\$(285)</u>

Greater Than 12 Months

	<u>Fair Value</u>	<u>Gross Unrealized Loss</u>
Available-for-sale securities at March 31, 2018:		
Corporate bonds	\$5,461	\$(13)
Agency bonds	799	(1)
Preference shares	1,656	(70)
Total	<u>\$7,916</u>	<u>\$(84)</u>
Available-for-sale securities at March 31, 2017:		
Corporate bonds	<u>\$ —</u>	<u>\$ —</u>
Total	<u>\$ —</u>	<u>\$ —</u>

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(6) Investment Securities (Continued)

At March 31, 2018, there were no investment securities owned by the Company for which the fair value was less than the carrying value for a period greater than 12 months.

Available-for-sale securities by contractual maturity were as follows:

	March 31, 2018
Due in one year or less	\$45,900
Due after 1 year through 5 years	4,140
Due after 5 years	—
Total	\$50,040

Proceeds from sales of available-for-sale investment securities and the gross gains and losses that have been included in earnings as a result of those sales were as follows:

	Year Ended March 31,		
	2018	2017	2016
Proceeds from sales of available-for-sale investment securities	\$158,800	\$138,232	\$124,597
Gross gains	\$ 1,655	\$ 1,007	\$ 64
Gross losses	(127)	(1)	—
Net realized gains on sales of available-for-sale investment securities	\$ 1,528	\$ 1,006	\$ 64

(7) Investments in Unconsolidated Affiliates

Investments in entities in which the Company owns between 20% and 50% of the voting interest or otherwise acquires management influence are accounted for using the equity method and initially recognized at cost. Under the equity method, the Company's share of the post-acquisition profits and losses is recognized in the Consolidated Statements of Income. As of March 31, 2018, through its Polaris subsidiary, the Company owns a 50% interest in Intellect Polaris Design LLC, an LLC which holds certain real estate in New Jersey, which is being accounted for using the equity method of accounting. As of March 31, 2018, the difference between the carrying amount and our equity in net assets of this investment was \$528. This is due to fair value measurement of the investment upon the Polaris acquisition.

(8) Fair Value of Financial Instruments

The Company uses a framework for measuring fair value under U.S. generally accepted accounting principles and enhanced disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The Company's financial assets and liabilities reflected in the consolidated financial statements at carrying value include marketable securities and other financial instruments which approximate fair value. Fair value for marketable securities is determined using a market approach based on quoted market prices at period end in active markets. The fair value

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
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(8) Fair Value of Financial Instruments (Continued)

hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

An entity is allowed to elect to record financial assets and financial liabilities at fair value upon their initial recognition on a contract- by- contract basis.

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis at March 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Available-for-sales securities—current	\$—	\$45,900	—	\$45,900
Available-for-sales securities—non-current . . .	—	4,140	—	4,140
Foreign currency derivative contracts	—	2,122	—	2,122
Interest Rate Swap Contracts	—	2,486	—	2,486
Total assets	\$—	\$54,648	\$ —	\$54,648
Liabilities:				
Foreign currency derivative contracts	\$—	1,023	\$ —	1,023
Interest Rate Swap Contracts	—	—	—	—
Contingent consideration	—	—	100	100
Total liabilities	\$—	\$ 1,023	\$100	\$ 1,123

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(8) Fair Value of Financial Instruments (Continued)

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis at March 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Available-for-sales securities—current	\$—	\$ 72,028	—	\$ 72,028
Available-for-sales securities—non-current	—	20,057	—	20,057
Foreign currency derivative contracts	—	16,431	—	16,431
Interest Rate Swap Contracts	—	1,842	—	1,842
Total assets	<u>\$—</u>	<u>\$110,358</u>	<u>\$—</u>	<u>\$110,358</u>
Liabilities:				
Foreign currency derivative contracts	\$—	—	\$—	—
Interest Rate Swap Contracts	—	—	—	—
Total liabilities	<u>\$—</u>	<u>\$ —</u>	<u>\$—</u>	<u>\$ —</u>

9) Property and Equipment

Property and equipment and their estimated useful lives in years consist of the following:

	<u>Estimated Useful Life (Years)</u>	<u>March 31,</u>	
		<u>2018</u>	<u>2017</u>
Computer and other equipment	3 - 5	\$ 50,154	\$ 41,650
Furniture and fixtures	7	14,862	13,755
Vehicles	3 - 5	1,753	2,085
Software	3 - 10	23,963	21,893
Leasehold improvements	Over the lease period or estimated useful life of the assets whichever is lower	10,558	8,987
Buildings	15 - 30	32,382	29,913
Land		56,611	56,715
Capital work-in-progress		1,745	1,547
		<u>\$192,028</u>	<u>\$176,545</u>
Less—accumulated depreciation and amortization		70,463	57,655
Property and equipment, net		<u>\$121,565</u>	<u>\$118,890</u>

Depreciation and amortization expense for the fiscal years ended March 31, 2018, 2017 and 2016 was \$17,448, \$16,329 and \$10,988, respectively. Capital work-in-progress represents advances paid towards the acquisition of property and equipment, and the cost of property and equipment including internally developed software not placed in service before the balance sheet date. The cost and accumulated amortization of assets under capital leases at March 31, 2018 were \$262 and \$174, respectively. The cost

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
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9) Property and Equipment (Continued)

and accumulated amortization of assets under capital leases at March 31, 2017 were \$384 and \$218, respectively.

(10) Accrued Expenses and Other

Accrued expenses and other consists of the following:

	March 31, 2018	March 31, 2017
Accrued other taxes	\$ 6,776	\$ 5,667
Accrued professional fees	18,422	12,895
Acquisition related liabilities	50,619	—
Hedge liability	1,043	—
Accrued discounts	6,255	5,534
Accrued employee travel and other expense	3,413	4,088
Accrued other	4,778	5,067
Total	<u>\$91,306</u>	<u>\$33,251</u>

(11) Debt

On February 6, 2018, in connection with the delisting process of Polaris, as well as the eTouch acquisition, the Company entered into a credit agreement (the “Credit Agreement”) dated as of February 6, 2018, by and among the Company, its guarantor subsidiaries party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, and J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint book runners and lead arrangers. The Credit Agreement replaces the prior \$300,000 credit agreement (“Prior Credit Facility”) with J.P. Morgan Securities and Merrill Lynch, Pierce, Fenner & Smith Incorporated. and provides for a \$200,000 revolving credit facility and a \$250,000 delayed-draw term loan (together, the “Credit Facility”). To finance the delisting process of Polaris and to refinance the balance on the Prior Credit Facility term loan balance of \$109,000 and line of credit balance of \$75,000, on February 6, 2018, the Company drew down \$180,000 of the term loan and \$55,000 of the line of credit on the Credit Agreement. On March 12, 2018 the company drew down the remaining \$70,000 on the term loan to finance the eTouch acquisition. Interest under these facilities accrues at a rate per annum of LIBOR plus 3.0%, subject to step-downs based on the Company’s ratio of debt to adjusted earnings before interest, taxes, depreciation, amortization, and stock compensation expense (“EBITDA”). The Company is required under the terms of the Credit Agreement to make quarterly principal payments on the term loan. For the fiscal year ending March 31, 2019 we are required to make principal payments of \$3,125 per quarter. The Credit Agreement includes customary maximum debt to EBITDA and minimum fixed charge coverage covenants. The term of the Credit Agreement is five years ending February 6, 2023. At March 31, 2018, the interest rates on the term loan and line of credit were 4.63% and 4.45% respectively.

The Credit Agreement has financial covenants that require that the Company maintain a Total Leverage Ratio of not more than 3.50 to 1.00 commencing with December 31, 2017 and for all quarters thereafter ending prior to December 31, 2019 and of not more than 3.25 to 1.00 commencing with December 31, 2019 and for all quarters thereafter ending prior to September 30, 2020, and 3.00 : 1.00,

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(11) Debt (Continued)

commencing with September 30, 2020 and tested for all quarters thereafter. The financial covenants also require that the Company maintain a Fixed Charge Coverage Ratio, commencing on December 31, 2017, of not less than 1.25 to 1.00, as of the last day of any Reference Period. For purposes of these covenants, “Total Leverage Ratio” means, as of the last day of any fiscal quarter, the ratio of Funded Debt to Adjusted EBITDA for the reference period ended on such date. “Funded Debt” refers generally to total indebtedness to third-parties for borrowed money, capital leases, deferred purchase price and earn-out obligations and related guarantees and “Adjusted EBITDA” is defined as consolidated net income plus (a) (i) GAAP depreciation and amortization, (ii) non-cash equity-based compensation expenses, (iii) fees and expenses incurred during such period in connection with the Credit Facility and loans made thereunder, (iv) fees and expenses incurred during such period in connection with any permitted acquisition, (v) one-time regulatory charges, (vi) other extraordinary and non-recurring losses or expenses, and (vii) all other non-cash charges, expenses and losses for such period, (viii) taxes net of tax credits, minus (b) (i) extraordinary or non-recurring income or gains for such period, and (ii) any cash payments made during such period in respect of non-cash charges, expenses or losses described in clauses (a)(ii), (a)(v) and (a)(vi) above taken in a prior period, subject to other adjustments and certain caps and limits on adjustments. The Fixed Charge Coverage Ratio is calculated under the Credit Agreement generally as the ratio of Adjusted EBITDA, excluding capital expenditures made during such period (to the extent not financed with indebtedness (other than Revolving Loans), an issuance of equity interests or capital contributions, or proceeds of asset sales, the proceeds of casualty insurance used to replace or restore assets, to fixed charges (regularly scheduled consolidated interest expense paid in cash, plus regularly scheduled dividends paid in cash for such period on or with respect to any Disqualified Equity Interests, including the Orogen Series A Preferred Stock, regularly scheduled amortization payments on indebtedness in cash, income taxes paid in cash and the interest component of capital lease obligation payments), on a consolidated basis.

The Credit Facility is secured by substantially all of the Company’s assets, including all intellectual property and all securities in domestic subsidiaries (other than certain domestic subsidiaries where the material assets of such subsidiaries are equity in foreign subsidiaries), subject to customary exceptions and exclusions from the collateral. All obligations under the Credit Agreement are unconditionally guaranteed by substantially all of the Company’s material direct and indirect domestic subsidiaries, with certain exceptions. These guarantees are secured by substantially all of the present and future property and assets of the guarantors, with certain exclusions.

At March 31, 2018, the Company is in compliance with our debt covenants and have provided a quarterly certification to our lenders to that effect. We believe that we currently meet all conditions set forth in the Credit Agreement to borrow thereunder and we are not aware of any conditions that would prevent us from borrowing part or all of the remaining available capacity under the existing revolving credit facility at March 31, 2018 and through the date of this filing.

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(11) Debt (Continued)

Current portion of long-term debt

The following summarizes our short-term debt balance as of:

	March 31,	
	2018	2017
Notes outstanding under the revolving credit facility	\$ —	\$ —
Term loan- current maturities	12,500	10,000
Less: deferred financing costs, current	(1,093)	(1,130)
Total	11,407	\$ 8,870

Long-term debt, less current portion

The following summarizes our long-term debt balance as of:

	March 31,	
	2018	2017
Term loan	\$250,000	\$190,000
Borrowings under revolving credit facility	55,000	—
Less:		
Current maturities	(12,500)	(10,000)
Deferred financing costs, long-term	(4,273)	(3,278)
Total	\$288,227	\$176,722

In accordance with the recently adopted FASB ASU 2015-03, the Company has presented debt issuance costs in the balance sheet as a direct deduction from the carrying value of that debt liability.

The following represents the schedule of maturities of long-term debt:

<u>Fiscal year ending March 31:</u>	
2019	\$ 12,500
2020	12,500
2021	18,750
2022	25,000
2023	236,250
Total	\$305,000

In July 2016, the Company entered into 12-month forward starting interest rate swap transactions to mitigate Company’s interest rate risk on Company’s variable rate debt (collectively, “The Interest Rate Swap Agreements”). The Company’s objective is to limit the variability of cash flows associated with changes in LIBOR interest rate payments due on the Prior Credit Agreement by using pay-fixed, receive-variable interest rate swaps to offset the future variable rate interest payments. The Company will recognize these transactions in accordance with ASC 815 “*Derivatives and Hedging*,” and have designated the swaps as cash flow hedges.

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(11) Debt (Continued)

The three Interest Rate Swap Agreements have an effective date of July 31, 2017 and a maturity date of July 31, 2020. As of March 31, 2018, the swaps have an aggregate notional amount of \$90,000 and hedge approximately 29.5% of our outstanding debt balance. The notional amount of the swaps amortizes over the remaining swap periods. The Interest Rate Swap Agreements require the Company to make monthly fixed interest rate payments based on the amortized notional amount at a blended weighted average rate of 1.025% and the Company will receive 1-month LIBOR on the same notional amounts. The unrealized gain associated with the 2016 Swap Agreement was \$2,486 at March 31, 2018, which represents the estimated amount that the Company would receive from the counterparties in the event of an early termination.

The Credit Facility amortizes at a rate of 5% per annum of the outstanding principal amount of the term loan for first two years, 7.5% per annum in the third year, 10% in the fourth year and 15% in the fifth year, in each case payable in equal quarterly instalments. To the extent funded, the delayed draw term loan will amortize in equal quarterly instalments on the same amortization schedule described above.

The Credit Facility is secured by substantially all of the Company's assets, including all intellectual property and all securities in domestic subsidiaries (other than certain domestic subsidiaries where the material assets of such subsidiaries are equity in foreign subsidiaries), subject to customary exceptions and exclusions from the collateral.

The Credit Agreement contains customary affirmative covenants for transactions of this type and other affirmative covenants agreed to by the parties, including, among others, the provision of annual and quarterly financial statements and compliance certificates, maintenance of property, insurance, compliance with laws and environmental matters. The Credit Agreement contains customary negative covenants, including, among others, restrictions on the incurrence of indebtedness, granting of liens, making investments and acquisitions, paying dividends, repurchases of equity interests in the Company, entering into affiliate transactions and asset sales. The Credit Agreement also provides for a number of customary events of default, including, among others, payment, bankruptcy, covenant, representation and warranty, change of control and judgment defaults.

Beginning in fiscal 2009, the Company's U.K. subsidiary entered into an agreement with an unrelated financial institution to sell, without recourse or continuing involvement, certain of its European-based accounts receivable balances from one client to such third party financial institution. During the course of the fiscal year ended March 31, 2018, \$25,704 of receivables were sold under the terms of the financing agreement. Fees paid pursuant to this agreement were immaterial during the fiscal year ended March 31, 2018. No amounts were due as of March 31, 2018, but the Company may elect to use this program again in future periods. However, the Company cannot provide any assurances that this or any other financing facilities will be available or utilized in the future.

(12) Series A Convertible Preferred Stock

On May 3, 2017, the Company and Orogen Viper LLC (the "Purchaser"), entered into an Investment Agreement (the "Investment Agreement"), pursuant to which the Company issued and sold to the Purchaser, and the Purchaser purchased from the Company, an aggregate of 70,000 shares of voting convertible preferred stock of the Company, designated as the Company's 3.875% Series A Convertible Preferred Stock, par value \$0.01 per share (the "Series A Voting Preferred Stock"), and 38,000 shares of a separate class of non-voting convertible preferred stock of the Company, designated as the Company's

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(12) Series A Convertible Preferred Stock (Continued)

3.875% Series A-1 Convertible Preferred Stock, par value \$0.01 per share (the “Series A-1 Preferred Stock” and, together with the Series A Voting Preferred Stock, the “Series A Convertible Preferred Stock”), in each case for a purchase price of \$1,000 per share, representing \$108,000 of gross proceeds to the Company.

The Investment Agreement provides the Purchaser the right, pursuant to the terms of the Series A Convertible Preferred Stock, to appoint a director to serve on our Board. Pursuant to the Investment Agreement, in connection with the closing of the transactions contemplated by the Investment Agreement (the “Closing”), our Board of Directors (the “Board”) increased the size of the Board from nine directors to ten directors and elected Vikram S. Pandit, the initial nominee designated by the Purchaser, to the Board, subject to replacement pursuant to the procedures described in the Investment Agreement. Such appointment right will terminate if the Purchaser and its affiliates fail to retain beneficial ownership of at least 50% of the number of shares of our common stock underlying the Series A Convertible Preferred Stock held by the Purchaser immediately following the Closing.

Following the conversion of the Series A Convertible Preferred Stock into shares of our common stock, so long as the Purchaser retains beneficial ownership of at least 50% of the number of shares of our common stock underlying the Series A Convertible Preferred Stock held by the Purchaser immediately following the Closing, we have agreed to include one nominee of the Purchaser for election as a director of the same class (whether Class I, Class II or Class III) as the other directors nominated by us for election at our next meeting of stockholders following such conversion, and to renominate such individual thereafter at each meeting of stockholders electing such class of directors. We are required to use our reasonable efforts to cause the election of such person.

Pursuant to the Investment Agreement, the Purchaser has agreed, subject to certain exceptions, that until the later of (1) the first date on which there is no Purchaser-affiliated director serving on our Board, and (2) May 3, 2019 (the “Standstill Period”), the Purchaser will not, among other things, subject to certain exceptions described in the Investment Agreement: (i) acquire any securities of the Company if, immediately after such acquisition, the Purchaser would collectively own in the aggregate more than 20.0% of the then outstanding common stock of the Company, (ii) propose or seek to effect any tender or exchange offer, merger or other business combination involving the Company or its securities, or make any public statement with respect to such transaction, (iii) make, or in any way participate in any “proxy contest” or other solicitation of proxies, (iv) seek election or appointment to, or representation on, our Board other than as set forth in the Investment Agreement or the Series A Certificate of Designations (as defined below), or seek the removal of any of our directors, or (v) conduct any referendum of stockholders of the Company or make or be the proponent of any stockholder proposal.

The Investment Agreement restricts the Purchaser’s ability to transfer the Series A Convertible Preferred Stock or shares of our common stock issued or issuable upon conversion of the Series A Convertible Preferred Stock, subject to certain exceptions specified in the Investment Agreement. In particular, prior to the earliest of (i) May 3, 2019, (ii) a change of control of the Company or entry into a definitive agreement for a transaction that, if consummated, would result in a change of control of the Company, and (iii) the later of May 3, 2018 and the first date on which there is no Purchaser-affiliated director serving on our Board, the Purchaser will be restricted from selling, offering, transferring, assigning, pledging, mortgaging, hypothecating, gifting or disposing the Series A Convertible Preferred Stock or shares of common stock issued or issuable upon conversion of the Series A Convertible Preferred

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(12) Series A Convertible Preferred Stock (Continued)

Stock. Such restrictions also prohibit the Purchaser from entering into or engaging in any hedge, swap, short sale, derivative transaction or other agreement or arrangement that transfers any ownership of, or interests in, the shares of Series A Convertible Preferred Stock or shares of common stock issued or issuable upon conversion of the Series A Convertible Preferred Stock. These restrictions do not apply to, among others, transfers to affiliates or in connection with certain third-party tender offers.

Subject to certain limitations, the Investment Agreement provides the Purchaser with certain registration rights for the shares of common stock underlying the Series A Convertible Preferred Stock (including any shares issued or issuable as dividends on the Series A Convertible Preferred Stock) held by the Purchaser. The Investment Agreement contains other customary terms for private investments in public companies, including representations, warranties and covenants.

On May 3, 2017, we filed with the Secretary of State of the State of Delaware (i) a Certificate of the Powers, Designations, Preferences and Rights of the 3.875% Series A Preferred Stock (the “Series A Certificate of Designations”) and (ii) a Certificate of the Powers, Designations, Preferences and Rights of the 3.875% Series A-1 Preferred Stock (the “Series A-1 Certificate of Designations” and, together with the Series A Certificate of Designations, the “Certificates of Designations”). Generally, except with respect to certain voting rights, and a conversion trigger applicable to the Series A-1 Preferred Stock described below as the “HSR Conversion,” the rights, preferences and privileges of the Series A Preferred Stock and the Series A-1 Preferred Stock are substantially identical.

The Series A Convertible Preferred Stock has a liquidation preference of \$1,000 per share. In addition, cumulative Series A Convertible Preferred Stock dividends accumulate on the Series A Convertible Preferred Stock at a rate of 3.875% per annum, and are payable quarterly in arrears. The payments on such dividends may be paid in cash or, at our option, in shares of our common stock. We may only pay such dividends in shares of common stock on or after August 1, 2018, subject to an aggregate share cap and so long as we have paid full cumulative dividends on the Series A Convertible Preferred Stock for all past dividend periods, and there is adequate current public information with respect to the Company and no volume limitations would apply to the resale of such shares, in each case under Rule 144 under the Securities Act of 1933.

The Series A Convertible Preferred Stock is convertible at the option of the holders at any time into shares of the Company’s common stock at an initial conversion rate of 27.77778 shares of the Company’s common stock per share of Series A Convertible Preferred Stock (which is equal to an initial conversion price of approximately \$36.00 per share of the Company’s common stock), subject to certain customary anti-dilution adjustments. If at any time after May 3, 2020, the closing sale price of our common stock exceeds 150% of the then applicable conversion price of the Series A Convertible Preferred Stock for at least 20 trading days during a period of 30 consecutive trading days, the Company may cause some or all of the Series A Convertible Preferred Stock to be converted into shares of common stock at the then applicable conversion rate. Upon the conversion of the Series A Convertible Preferred Stock into common stock, we are required to pay all accumulated but unpaid dividends in additional shares of common stock valued at the then applicable conversion price on the date of such conversion.

Holders of Series A Convertible Preferred Stock are entitled to vote generally with the holders of common stock on an as-converted basis (including with respect to election of the members of our Board). Holders of Series A Convertible Preferred Stock are also entitled to certain limited special approval rights,

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(12) Series A Convertible Preferred Stock (Continued)

including with respect to amendments to the Company's organizational documents that have an adverse effect on the Series A Convertible Preferred Stock, certain issuances of senior or pari passu securities, certain purchases, redemptions or other acquisitions of junior securities or payments, dividends or distributions thereon. In addition, so long as any shares of Series A Convertible Preferred Stock are outstanding and the Purchaser and its affiliates collectively beneficially own at least a majority of the shares of Series A Convertible Preferred Stock beneficially owned by such holders immediately following the Closing, the holders of Series A Convertible Preferred Stock, voting as a separate class by majority vote, are entitled to elect one director to serve on our Board.

Holders of Series A-1 Preferred Stock generally have no voting rights except as required by law and with respect to amendments to the Company's organizational documents that have an adverse effect on the Series A-1 Preferred Stock. At such time as any waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 applicable to the acquisition of shares of Preferred Stock expires or is terminated, all shares of the Series A-1 Preferred Stock then issued and outstanding shall immediately and automatically convert on a one for one basis to shares of Series A Preferred Stock (the "HSR Conversion"). Upon such HSR Conversion (which occurred in May 2017), all accumulated but unpaid dividends on such shares of Series A-1 Preferred Stock immediately prior to such HSR Conversion converted into an equivalent amount of accumulated but unpaid dividends on shares of Series A Preferred Stock immediately following such HSR Conversion.

With certain exceptions, upon a Fundamental Change (as defined in the Certificates of Designations), the holders of the Series A Convertible Preferred Stock may require that the Company repurchase for cash all or any whole number of shares of Series A Convertible Preferred Stock at a per-share repurchase price equal to 100% of the liquidation preference of such shares, plus accumulated and unpaid dividends. If we fail to effect such repurchase, the dividend rate on the Series A Convertible Preferred Stock will increase by 1% per annum and an additional 1% per annum on each anniversary of the date that the Company is required to effect such repurchase, during the period in which such failure to effect the repurchase is continuing, except that the dividend rate will not increase to more than 6.875% per annum. The definition of Fundamental Change includes a sale of substantially all the Company's assets, a change of control of the Company by way of a tender offer, merger or similar event, the adoption of a plan relating to the Company's liquidation or dissolution and certain delistings of our common stock, except in certain cases described in the Certificates of Designations in which the consideration received or to be received by the Company's common stockholders in a sale or change of control transaction consists primarily of publicly listed and traded securities.

Holders of Series A Convertible Preferred Stock that are converted in connection with a Make-Whole Fundamental Change, as defined in the Certificates of Designations, are, under certain circumstances, entitled to an increase in the conversion rate for such shares of Series A Convertible Preferred Stock based on the effective date of such event and the applicable price attributable to the event as set forth in a table contained in the Certificates of Designations. The definition of Make-Whole Fundamental Change includes a sale of substantially all the Company's assets, a change of control of the Company by way of a tender offer, merger or similar event, the adoption of a plan relating to the Company's liquidation or dissolution and certain delistings of our common stock.

If any shares of Series A Convertible Preferred Stock have not been converted into common stock prior to May 3, 2024, the Company will be required to repurchase such shares at a repurchase price equal

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(12) Series A Convertible Preferred Stock (Continued)

to the liquidation preference of the repurchased shares plus the amount of accumulated and unpaid dividends thereon. If we fail to effect such repurchase, the dividend rate on the Series A Convertible Preferred Stock will increase by 1% per annum and an additional 1% per annum on each anniversary of May 3, 2024 during the period in which such failure to effect the repurchase is continuing, except that the dividend rate will not increase to more than 6.875% per annum.

In connection with the issuance of the Series A Convertible Preferred Stock, the Company incurred direct and incremental expenses of \$1,154, including financial advisory fees, closing costs, legal expenses and other offering-related expenses. These issuance costs are recorded as a reduction to the proceeds received from issuance of Series A Convertible Preferred Stock. These direct and incremental expenses reduced the Series A Convertible Preferred Stock, and will be accreted through retained earnings as a deemed dividend from the date of issuance through the first possible known redemption date, May 3, 2024. During the fiscal year ended March 31, 2018, the Company recorded \$150, as an accretion to the Series A Convertible Preferred Stock. Holders of Series A Convertible Preferred Stock are entitled to a cumulative dividend at the rate of 3.875% per annum, payable quarterly in arrears. During the fiscal year ended March 31, 2018, the Company has paid \$3,127 as cash dividend on Series A Convertible Preferred Stock. As of March 31, 2018, the Company had declared and accrued dividends of \$686 associated with the Series A Convertible Preferred Stock.

(13) Stock Options, Restricted Stock Awards and Stock Appreciation Rights

The Company's Amended and Restated 2000 Stock Option Plan (the "2000 Plan") was adopted in the fiscal year ended March 31, 2001. Under the 2000 Plan, shares were reserved for issuance to the Company's employees, directors, and consultants. As of March 31, 2018, there were no shares reserved for issuance under this plan. Options granted under the 2000 Plan may be incentive stock options, nonqualified stock options or restricted stock. Incentive stock options may only be granted to employees. Options granted have a term of ten years and generally vest over four years. The Company settles employee stock option exercises with newly issued shares. The compensation committee of the board of directors determines (upon board of director approval) the term of awards on an individual case basis. The exercise price of incentive stock options shall be no less than 100% of the fair market value per share of the Company's common stock on the grant date. If an individual owns stock representing more than 10% of the outstanding shares, the price of each share shall be at least 110% of fair market value. In May 2007, the Company's board of directors determined that no further grants would be made under the 2000 Plan.

In July 2005, the Company adopted the Virtusa Corporation 2005 Stock Appreciation Rights Plan (the "SAR Plan"). Under the SAR Plan, the Company may grant up to 479,233 SARs to employees and consultants of Virtusa and its foreign subsidiaries, and settles the SARs in cash or common stock, as set forth in the SAR Plan. Prior to the Company's initial public offering ("IPO"), the SARs could only be settled in cash. After the Company's IPO, the cash settlement feature of the SARs ceased and exercises may only be settled in shares of the Company's common stock. In May 2007, the Company's board of directors determined that no further grants would be made under the SAR Plan.

The Company's board of directors and its stockholders approved the Company's 2007 Stock Option and Incentive Plan (the "2007 Plan"), in May 2007, and the stockholders of the Company again approved the 2007 Plan in September 2008. The 2007 Plan permits the Company to make grants of incentive stock options, non-qualified stock options, SARs, deferred stock awards, restricted stock awards, unrestricted

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(13) Stock Options, Restricted Stock Awards and Stock Appreciation Rights (Continued)

stock awards, and dividend equivalent rights. The Company reserved 830,670 shares of its common stock for the issuance of awards under the 2007 Plan. The 2007 Plan provides that the number of shares reserved and available for issuance under the plan will be automatically increased each April 1, beginning in 2008, by 2.9% of the outstanding number of shares of common stock on the immediately preceding March 31 or such lower number of shares of common stock as determined by the board of directors. This number is subject to adjustment in the event of a stock split, stock dividend or other change in the Company's capitalization. Generally, shares that are forfeited, cancelled or withheld to settle tax liabilities from awards under the 2007 Plan also will be available for future awards. In addition, available shares under the 2000 Plan and the SAR Plan, as a result of the forfeiture, expiration, cancellation, termination or net issuances of awards, are automatically made available for issuance under the 2007 Plan. In May 2015, the Company's board of directors determined that no further grants would be made under the 2007 Plan.

In May 2015, the Company adopted the 2015 Stock Option and Incentive Plan ("2015 Plan") which was also approved by the Company's stockholders on September 1, 2015. The 2015 Plan replaces the 2007 Plan and permits the granting of incentive stock options, non-qualified stock options, restricted stock awards, restricted stock units, unrestricted stock awards, performance share awards, performance-based awards to covered employees, cash-based awards and dividend equivalent rights. Stock options, restricted stock and restricted stock units generally vest over four years. Performance share awards and performance-based awards generally vest over three years. The Company reserved 3,000,000 shares of its common stock for the issuance of awards under the 2015 Plan as well as the number of shares of stock as is equal to the shares underlying any stock options and awards that are returned to the Company's 2007 Plan after the 2015 Plan's effective date as a result of the expiration, forfeiture, acquisition by the Company prior to vesting, cancellation or termination of such stock options and awards (other than by exercise) as set forth in the 2007 Plan. Additionally, shares that are forfeited or cancelled or otherwise terminated (other than by exercise) or held back by the Company or tendered by the grantee of any equity award to settle applicable taxes on any equity award under the 2015 Plan shall be added back to the shares of common stock available for future issuance under the 2015 Plan. At March 31, 2018, the number of shares reserved for issuance under the 2015 Plan was 1,671,797.

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(13) Stock Options, Restricted Stock Awards and Stock Appreciation Rights (Continued)

The following tables summarize stock option and restricted stock activity under the 2000 Plan, the 2007 Plan and the 2015, as the case may be, Plan for the fiscal years ended March 31, 2018, 2017 and 2016:

	Stock Option Activity			
	Number of Options to Purchase Common Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value
Outstanding at March 31, 2015	806,856	\$13.15		
Granted	—			
Exercised	(127,718)	10.87		
Forfeited or cancelled	—	—		
Outstanding at March 31, 2016	679,138	13.58		
Granted	—			
Exercised	(104,853)	14.18		
Forfeited or cancelled	(4,624)	31.97		
Outstanding at March 31, 2017	569,661	13.31		
Granted	—	—		
Exercised	(322,317)	12.60		
Forfeited or cancelled	—	—		
Outstanding at March 31, 2018	247,344	\$14.24	2.93	\$8,464
Exercisable at March 31, 2018	247,344	\$14.24	2.93	\$8,464

	Restricted Stock Award Activity	
	Number of Restricted Stock Awards	Weighted Average Grant Date Fair Value
Unvested at March 31, 2015	638,478	\$24.60
Awarded	140,185	46.25
Vested	(273,675)	22.22
Forfeited	(27,597)	35.51
Unvested at March 31, 2016	477,391	31.69
Awarded	—	—
Vested	(226,838)	26.41
Forfeited	(32,993)	42.59
Unvested at March 31, 2017	217,560	35.55
Awarded	—	—
Vested	(126,843)	32.64
Forfeited	(15,090)	37.55
Unvested at March 31, 2018	75,627	\$40.04

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(13) Stock Options, Restricted Stock Awards and Stock Appreciation Rights (Continued)

	Restricted Stock Unit Activity	
	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Unvested at March 31, 2015	404,797	\$31.16
Awarded	426,456	49.10
Vested	(182,697)	27.93
Forfeited	(41,316)	35.52
Unvested at March 31, 2016	607,240	44.43
Awarded	1,863,658	24.63
Vested	(339,582)	39.54
Forfeited	(151,700)	35.82
Unvested at March 31, 2017	1,979,616	27.29
Awarded	731,363	35.99
Vested	(436,225)	39.14
Forfeited	(752,765)	25.06
Unvested at March 31, 2018	1,521,989	\$29.18

The aggregate intrinsic value of options exercised during the fiscal years ended March 31, 2018, 2017 and 2016 was \$7,816, \$1,629 and \$4,246, respectively. There were no options granted during the fiscal year ended March 31, 2018, 2017 and 2016. During the fiscal years ended March 31, 2018, 2017 and 2016, the Company realized \$1,481, \$(719) and \$2,775 respectively, of income tax (expense) benefits from the exercise of stock options as a windfall (shortfall). The Company adopted ASU 2016-09 on April 1, 2017. All excess tax benefits and all tax deficiencies are recognized as income tax expense or benefit in the consolidated statement of income for the fiscal year ending March 31, 2018.

As of March 31, 2018, there was \$35,154 of total unrecognized compensation cost related to unvested stock options, restricted stock awards, deferred stock awards and restricted stock units granted under the Company's Amended and Restated 2000 Option Plan, the Company's 2007 Stock Option and Incentive Plan and the Company's 2015 Stock Option and Incentive Plan. The unrecognized compensation cost is expected to be recognized over a remaining weighted average period of 1.69 years.

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(13) Stock Options, Restricted Stock Awards and Stock Appreciation Rights (Continued)

The tables below summarizes information about the SAR Plan activity for the fiscal years ended March 31, 2018, 2017 and 2016 as follows:

	SAR Plan Activity			Aggregate Intrinsic Value
	Number of SARs	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	
Outstanding at March 31, 2015	5,110	\$4.04		
Granted	—	—		
Exercised	(3,902)	3.84		
Forfeited or cancelled	—	—		
Outstanding at March 31, 2016	1,208	4.70		
Granted	—	—		
Exercised	(857)	4.91		
Forfeited or cancelled	(351)	4.19		
Outstanding and exercisable at March 31, 2017	—	—		
Granted	—	—		
Exercised	—	—		
Forfeited or cancelled	—	—		
Outstanding and exercisable at March 31, 2018	—	—	—	—

The aggregate intrinsic value of SARs exercised during the fiscal years ended March 31, 2018, 2017 and 2016 was \$0, \$23 and \$180, respectively.

(14) Income Taxes

The income before income tax expense shown below is based on the geographic location to which such income is attributed for each of the fiscal years ended March 31, 2018, 2017 and 2016:

	Year Ended March 31,		
	2018	2017	2016
United States	\$(31,526)	\$(52,390)	\$ 4,556
Foreign	73,362	71,208	53,113
Total	\$ 41,836	\$ 18,818	\$57,669

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(14) Income Taxes (Continued)

The provision for income taxes for each of the fiscal years ended March 31, 2018, 2017 and 2016 consisted of the following:

	<u>Year Ended March 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current provision:			
Federal	\$18,747	\$ (1,966)	\$ 6,367
State	(108)	170	1,961
Foreign	24,195	15,213	9,719
Total current provision	<u>\$42,834</u>	<u>\$ 13,417</u>	<u>\$18,047</u>
Deferred (benefit) provision:			
Federal	\$(1,289)	\$ (7,870)	\$(2,753)
State	(2,726)	(2,888)	(724)
Foreign	(5,931)	(98)	(1,921)
Total deferred (benefit) provision	<u>\$(9,946)</u>	<u>\$(10,856)</u>	<u>\$(5,398)</u>
Total provision for income taxes	<u>\$32,888</u>	<u>\$ 2,561</u>	<u>\$12,649</u>

The items which gave rise to differences between the income taxes in the statements of income and the income taxes computed at the blended U.S. statutory rate (30.7%) are summarized as follows:

	<u>Year Ended March 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Tax on income before income tax expense at U.S. statutory rate	\$12,865	\$ 6,398	\$20,184
U.S. state and local taxes (benefit), net of U.S. federal income tax effects	(2,800)	(2,776)	701
Benefit from foreign subsidiaries' tax holidays	(7,727)	(7,973)	(7,477)
Foreign rate difference	(2,215)	(7,688)	(4,549)
Tax rate change	9,915	—	—
Nondeductible transactions costs	53	354	1,321
Nondeductible business costs	994	1,736	1,614
Repatriated foreign earnings	—	5,879	—
Deemed repatriated foreign earnings	17,834	—	—
Nondeductible interest	6,500	6,138	544
Other adjustments	(2,531)	493	311
Income tax expense	<u>\$32,888</u>	<u>\$ 2,561</u>	<u>\$12,649</u>

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(14) Income Taxes (Continued)

Deferred tax assets (liabilities) at March 31, 2018 and 2017 were as follows:

	March 31,	
	2018	2017
Deferred revenue	\$ 649	\$ 785
Bad debt reserve	774	699
Tax credit carry forwards	2,836	2,247
Accrued expenses and reserves	13,825	18,787
Share-based compensation expense	3,985	4,135
Intangible assets	3,477	4,189
Net operating loss	15,160	4,584
Total gross deferred tax assets	<u>\$ 40,706</u>	<u>\$ 35,426</u>
Valuation allowance	(2,535)	(3,155)
Total deferred tax assets	<u>\$ 38,171</u>	<u>\$ 32,271</u>
Depreciable assets	(10,054)	(10,441)
Unrealized gains	(698)	(5,884)
Acquisition and other liabilities	(11,052)	(12,780)
Goodwill	(6,180)	(6,755)
Total deferred tax liabilities	<u>\$(27,984)</u>	<u>\$(35,860)</u>
Net deferred tax assets/(liabilities)	<u>\$ 10,187</u>	<u>\$ (3,589)</u>

The ultimate realization of deferred tax assets is dependent upon management’s assessment of the Company’s ability to generate sufficient taxable income to realize the deferred tax assets during the periods in which the temporary differences become deductible. Management considers the historical level of taxable income, projections for future taxable income, and tax planning strategies in making this assessment. Net income in the United States has decreased, resulting in net losses for the years ended March 31, 2018 and 2017. The Company has a significant deferred tax asset in the United States. The Company assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to realize the existing deferred tax assets. The Company recorded a decrease to the valuation allowance totaling \$620 during the fiscal year ended March 31, 2018 related to realization of capital losses, which was recorded in income tax expense. The Company has determined for all other deferred assets that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets. We continue to monitor all positive and negative evidence related to this asset.

Net loss in the United States has decreased during the fiscal year ended March 31, 2018 compared with the fiscal year ended March 31, 2017. The Company has \$24,045 of deferred tax assets in the United States at March 31, 2018. The Company has not completed its valuation allowance assessment related to the Tax Cuts and Jobs Act (the “Tax Act”), primarily related to the impact of the global intangible low taxed income (“GILTI”), interest expense limitation, foreign tax credit utilization and executive pay, which might impact the need for a valuation allowance.

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(14) Income Taxes (Continued)

At March 31, 2018, the Company has \$329 of US foreign tax credits which begin to expire in March 2022 and for which a full valuation allowance has been recorded, \$2,506 of Indian Minimum Alternative Tax (“MAT”) credits which begin to expire at various dates through March 2028, \$14,024 of NOLs, which begin to expire in 2037 and \$1,136 of capital loss carryover which begin to expire in 2020. The Company has determined that it is more likely than not that the results of future operations will generate sufficient taxable income to realize \$15,461 of these deferred tax assets for which a valuation allowance is not provided.

During the fiscal year ended March 31, 2018, the Company recorded \$4,640 of net income tax expense directly in other comprehensive income related to the unrealized gain/loss on available for sale securities, the unrealized gain/loss on effective cash flow hedges and the foreign currency loss on certain long-term intercompany balances. During the fiscal year ended March 31, 2018, the Company recognized \$1,481 of net income tax benefit related to a windfall in the tax benefits of share-based compensation which was recorded as an income tax benefit in the consolidated statement of income (loss) pursuant to ASU 2016-09.

The Company’s effective tax rate for the fiscal year ended March 31, 2018 was significantly impacted by the Tax Act, enacted on December 22, 2017 by the U.S. government. The Company’s reported effective tax rate is also impacted by jurisdictional mix of profits and losses in which the Company operates, foreign statutory tax rates in effect, unusual or infrequent discrete items requiring a provision during the period and certain exemptions or tax holidays applicable to the Company. The Company’s aggregate income tax rate in foreign jurisdictions is comparable to its income tax rate in the United States, as a result of the Tax Act, other than jurisdictions in which the Company operates and applicable tax holiday benefits of the Company, obtained primarily in India and Sri Lanka.

The Tax Act contains several key tax provisions that will impact the Company, including the reduction of the corporate income tax rate to 21% effective January 1, 2018. The Tax Act also includes a variety of other changes, such as a repatriation tax on accumulated foreign earnings deemed repatriated, a limitation on the tax deductibility of interest expense, acceleration of business asset expensing, and reduction in the amount of executive pay that could qualify as a tax deduction, among others. The lower corporate income tax rate will require the Company to remeasure its U.S. deferred tax assets and liabilities as well as reassess the realizability of its deferred tax assets and liabilities. ASC Topic 740, Income Taxes, requires the Company to recognize the effect of the tax law changes in the period of enactment. However, the Securities and Exchange Commission has issued Staff Accounting Bulletin 118, Income Tax Accounting Implications of the Tax Cuts and Job Act (“SAB 118”), which will allow the Company to record provisional amounts during a measurement period of up to one year after the enactment of the Tax Act to finalize the recording of the related tax impacts. During the fiscal year ended March 31, 2018, the Company recorded a provisional charge of \$17,834 for deemed repatriation of unremitted earnings and a provisional charge of \$4,890 primarily to remeasure our opening U.S. deferred tax assets to reflect the lower statutory rate at which they will be realized. Both provisional charges are based on the Company’s reasonable estimates. The \$17,834 for deemed repatriation will be paid over the next 8 years, of which approximately \$1,427 is included in income tax payable and \$16,407 is included in long-term liabilities in the consolidated balance sheet as of March 31, 2018.

Due to the complexities involved in determining the previously unremitted earnings of all our foreign subsidiaries, the Company is still in the process of obtaining, preparing and analyzing the computations of

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(14) Income Taxes (Continued)

accumulated earnings and profits balances as of March 31, 2018. We are continuing to analyze certain aspects of the Tax Act and may refine our estimates, which could potentially affect the measurement of our net deferred tax assets or give rise to new deferred tax amounts. The U.S. Government and state tax authorities are expected to continue to issue guidance regarding the Tax Act, which may result in adjustments to our provisional estimates. The final determination of these provisional amounts will be completed as additional information becomes available, but no later than one year from the enactment date.

The changes included in the Tax Act are broad and complex. The final impacts of the Tax Act may differ from the above estimate, possibly materially, due to, among other things, changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, any changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates the Company has utilized to calculate the impacts, including impacts from changes to current year earnings estimates and foreign exchange rates of foreign subsidiaries.

The U.S. Tax Act subjects a U.S. shareholder to GILTI earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, *Accounting for Global Intangible Low-Taxed Income*, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. Given the complexity of the GILTI provisions, we are still evaluating the effects of the GILTI provisions and have not yet determined our accounting policy. At March 31, 2018, because we are still evaluating the GILTI provisions and our analysis of future taxable income that is subject to GILTI, we are unable to make a reasonable estimate and have not reflected any adjustments related to GILTI in our financial statements. The Company continues to review the anticipated impacts of the base erosion anti-abuse tax (“BEAT”), which is not effective until fiscal year 2019. The Company has not recorded any impact associated with BEAT in the tax rate for the fiscal year ended March 31, 2018.

The Company’s Indian subsidiaries operate several development centers in areas designated as a SEZ, under the SEZ Act of 2005. In particular, the Company was approved as an SEZ Co-developer and has built a campus on a 6.3 acre parcel of land in Hyderabad, India that has been designated as an SEZ. As an SEZ Co-developer, the Company is entitled to certain tax benefits for any consecutive period of 10 years during the 15 year period starting in fiscal year 2008. The Company has elected to claim SEZ Co-developer income tax benefits starting in fiscal year ended March 31, 2013. In addition, the Company has leased facilities in SEZ designated locations in Hyderabad and Chennai, India. The Company’s profits from the Hyderabad and Chennai SEZ operations are eligible for certain income tax exemptions for a period of up to 15 years beginning in fiscal March 31, 2009. The Company’s India profits ineligible for SEZ benefits are subject to corporate income tax at the current rate of 34.6%. In the fiscal years ended March 31, 2013 and March 31, 2014, the Company leased a facility in an SEZ designated location in Bangalore and Pune, India each of which is eligible for tax holidays for up to 15 years beginning in the fiscal years ended March 31, 2013 and March 31, 2014 respectively. During the fiscal years ended March 31, 2018 and 2016, the Company established new units in Bangalore and Hyderabad, respectively, in SEZ designated areas, for which it is eligible for tax holiday for up to 15 years. Based on the latest changes in tax laws, book profits of SEZ units are subject to MAT, commencing April 1, 2011, which will continue to negatively impact the Company’s cash flows.

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(14) Income Taxes (Continued)

In addition, the Company's Sri Lankan subsidiary, Virtusa (Private) Limited, is operating under a 12-year income tax holiday arrangement that is set to expire on March 31, 2019 and required Virtusa (Private) Limited to retain certain job creation and investment criteria through the expiration of the holiday period. During the fiscal year ended March 31, 2018, the Company believes it had fulfilled its hiring and investment commitments and is eligible for tax holiday through March 2019. The current agreement provides income tax exemption for all export business income. On November 23, 2017, the Company received confirmation from the Board of Investments that it had satisfied investment criteria through March 31, 2017 and is eligible for holiday benefits. At March 31, 2018, the Company believes it is eligible for continued benefits for the entire 12 year tax holiday.

The India and Sri Lanka income tax holidays reduced the overall tax provision and increased both net income and diluted earnings per share in the fiscal years ended March 31, 2018, 2017 and 2016 by \$7,727 \$7,973 and \$7,477, respectively, and by \$0.26, \$0.27 and \$0.25, respectively. As of March 31, 2018, two SEZ tax holidays in Chennai and Hyderabad, India are in the tenth year, subject to a partial expiration of fifty percent of their tax benefits through March 2018 and may be extended on a limited basis for an additional five years per unit if certain reinvestment criteria are met. The partial expiration of SEZ tax holidays in Chennai and Hyderabad, respectively, negatively impacted net income and diluted earnings per share in the fiscal year ended March 31, 2018, by \$899 and \$1,078 and by \$0.03 and \$0.04, respectively.

The Company intends to indefinitely reinvest all of its accumulated and future foreign earnings outside the United States. At March 31, 2018, the Company had \$191,013 of cash, cash equivalents, short-term investments and long-term investments that would otherwise be available for potential distribution, if not indefinitely reinvested. Due to the various methods by which such earnings could be repatriated in the future, the amount of taxes attributable to the undistributed earnings are dependent on circumstances existing if, and when remittance occurs. The Company does not provide for U.S. income taxes on foreign currency translation or applicable withholding tax until a distribution is declared. In the fiscal year ended March 31, 2018, the Company repatriated \$15,782 from Virtusa C.V., a subsidiary of the Company, organized to finance the acquisition of Polaris. There was no US tax was recorded during the current fiscal year as the distribution did not incur any tax under the new dividends received provisions in the US Tax Act.

Due to the geographical scope of the Company's operations, the Company is subject to tax examinations in various jurisdictions. The Company's ongoing assessments of the more-likely-than-not outcomes of these examinations and related tax positions require judgment and can increase or decrease the Company's effective tax rate, as well as impact the Company's operating results. The specific timing of when the resolution of each tax position will be reached is uncertain. The Company does not believe that the outcome of any ongoing examination will have a material effect on its consolidated financial statements within the next twelve months. The Company's major taxing jurisdictions include the United States, the United Kingdom, India and Sri Lanka. In the United States, the Company remains subject to examination for all tax years ended after March 31, 2014. In the foreign jurisdictions, the Company generally remains subject to examination for tax years ended after March 31, 2005.

Each fiscal year, unrecognized tax benefits may be adjusted upon the closing of the statute of limitations for income tax returns filed in various jurisdictions. The total amount of unrecognized tax benefits that would reduce income tax expense and the effective income tax rate, if recognized, is \$7,544, \$7,612 and \$6,693 as of March 31, 2018, 2017 and 2016, respectively. Although it would be difficult to

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(14) Income Taxes (Continued)

anticipate the final outcome on timing of resolution of any particular uncertain tax position, the Company anticipates that \$71 of unrecognized tax benefits will reverse during the twelve month period ending March 31, 2019 due to settlement or expiration of statute of limitations on open tax years. All of these benefits are expected to have an impact on the effective tax rate as they are realized.

The following summarizes the activity related to the gross unrecognized tax benefits:

	Year Ended March 31,		
	2018	2017	2016
Balance at beginning of the fiscal year	\$7,612	\$6,693	\$ 546
Balance acquired as part of the Polaris SPA Transaction	—	—	6,172
Foreign currency translation related to prior year tax positions	105	122	(42)
Decreases related to prior year tax positions	(332)	—	—
Decreases related to prior year tax positions due to settlements or lapse in applicable statute of limitations	(335)	(597)	(117)
Increases related to prior year tax positions	494	1,394	134
Balance at end of the fiscal year	<u>\$7,544</u>	<u>\$7,612</u>	<u>\$6,693</u>

The Company continues to classify accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the fiscal years ended March 31, 2018 and 2017, the Company expensed accrued interest and penalties of \$162 and \$522, respectively, through income tax expense consistent with its prior positions, to reflect interest and penalties on certain unrecognized tax benefits as part of income tax. The total accrued interest and penalties, including foreign currency translation relating to certain foreign and domestic tax matters at March 31, 2018 and 2017, were \$1,567 and \$1,941, respectively. During the fiscal year ended March 31, 2018, the Company's unrecognized tax benefits decreased by \$68. The decrease in the unrecognized tax benefits during the fiscal year ended March 31, 2018 was primarily related to settlement of prior tax positions of or matters related to tax returns where the statute of limitations has expired. The net movement in unrecognized tax benefits for the fiscal year ended March 31, 2018 was as follows: \$166 benefit recorded to income tax expense and \$7 for cash settlements offset by \$106 to other comprehensive income ("OCI") for foreign currency impact. The Company has recorded unrecognized tax benefits in long-term liabilities if settlement is not expected in the next year.

The Company has been under income tax examination in India and the U.K and the United states. The Indian taxing authorities issued an assessment order with respect to their examination of the various tax returns for the fiscal years ended March 31, 2005 to March 31, 2014 of the Company's Indian subsidiary, Virtusa (India) Private Ltd, now merged with and into Virtusa Consulting Services Private Limited (collectively referred to as "Virtusa India"). At issue were several matters, the most significant of which was the redetermination of the arm's-length profit which should be recorded by Virtusa India on the intercompany transactions with its affiliates. During the fiscal year ended March 31, 2011, the Company entered into a competent authority settlement and settled the uncertain tax position for the fiscal years ended March 31, 2004 and 2005. However, the redetermination of arm's-length profit on transactions with respect to the Company's subsidiaries and Virtusa UK Limited has not been resolved and remains under appeal for the fiscal year ended March 31, 2005. The Company is currently appealing assessments for fiscal years ended March 31, 2005 through 2014. In the U.K. the Company is currently under examination for

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
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(14) Income Taxes (Continued)

transfer pricing matters for the year ended March 2014. In the U.S. the IRS has initiated an examination of fiscal years ended March 31, 2015 and March 31, 2017.

(15) Post-retirement Benefits

The Company has noncontributory defined benefit plans (the “Benefit Plans”) covering its employees in India and Sri Lanka as mandated by the Indian and Sri Lankan governments. Benefits are based on the employee’s years of service and compensation at the time of termination. The Company uses March 31 as the measurement date for its plans.

Cost of pension plans

	Year Ended March 31,		
	2018	2017	2016
Components of net periodic pension expense			
Expected return on plan assets	\$ (692)	\$ (606)	\$(336)
Service costs for benefits earned	1,464	1,326	780
Interest cost on projected benefit obligation	660	580	281
Amortization of prior service cost	9	9	9
Recognized net actuarial loss	138	135	151
Net periodic pension expense	\$1,579	\$1,444	\$ 885

Actuarial assumptions

	Year Ended March 31,		
	2018	2017	2016
Discount rate	7.30% - 10.34%	6.75% - 12.00%	7.50% - 11.00%
Compensation increases (annual)	5.00% - 8.00%	5.00% - 7.50%	5.00% - 7.50%
Expected return on assets	7.50% - 12.20%	7.50% - 11.98%	7.50% - 12.00%

The discount rate is based upon high quality fixed income investments in India and Sri Lanka. The discount rates at March 31, 2018 were used to measure the year-end benefit obligations and the pension cost for the subsequent year.

To determine the expected long-term rate of return on pension plan assets, the Company considers the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. The Company amortizes unrecognized actuarial gains or losses over a period no longer than the average future service of employees.

The Company’s benefit obligations are described in the following tables. Accumulated and projected benefit obligations (“ABO” and “PBO”, respectively) represent the obligations of a pension plan for past service as of the measurement date. ABO is the present value of benefits earned to date with benefits computed based on current compensation levels. PBO is ABO increased to reflect expected future compensation.

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(15) Post-retirement Benefits (Continued)

Accumulated benefit obligation and projected benefit obligation

	<u>As of March 31,</u>	
	<u>2018</u>	<u>2017</u>
Accumulated benefit obligation	\$ 7,260	\$ 6,685
Projected benefit obligation:		
Beginning balance	\$ 9,148	\$ 7,312
Service cost	1,779	1,326
Interest cost	660	580
Actuarial (gain) loss	(62)	637
Benefits paid	(930)	(1,277)
Polaris SPA transaction & plan combination	—	449
Exchange rate adjustments	(71)	121
Ending balance	<u>\$10,524</u>	<u>\$ 9,148</u>

Fair value of plan assets

	<u>As of March 31,</u>	
	<u>2018</u>	<u>2017</u>
Balance at April 1, 2017	\$7,832	\$ 6,633
Employer contributions	2,646	1,772
Actual return on plan assets	394	625
Actuarial (gain) loss	(9)	—
Benefits paid	(930)	(1,277)
Polaris SPA Transaction	—	—
Exchange rate adjustments	(48)	79
Balance at March 31, 2018	<u>\$9,885</u>	<u>\$ 7,832</u>

At March 31, 2018, 2017 India and Sri Lanka together had \$639, \$1,316, respectively, net projected benefit obligation recorded in the consolidated balance sheets as “accrued employee compensation and benefits”.

Plan asset allocation

	<u>March 31, 2018</u>	
	<u>Target Allocation</u>	<u>Actual Allocation</u>
Government securities	30% - 40%	40%
Corporate debt	40% - 50%	48%
Other	1% - 20%	12%

The Company’s plan assets are being managed by insurance companies in India and Sri Lanka.

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(15) Post-retirement Benefits (Continued)

Plan Assets

The following table presents the fair values of the Company's pension plan assets.

<u>Asset Category</u>	<u>Fair Value Measurements</u>		
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>
At March 31, 2018			
Government Bonds(1)	\$3,991	\$ —	\$3,991
Corporate Bonds(2)	4,723	—	4,723
Equity Shares and Others(3)	1,171	365	806
	<u>\$9,885</u>	<u>\$365</u>	<u>\$9,520</u>
At March 31, 2017			
Government Bonds(1)	\$3,065	\$ —	\$3,065
Corporate Bonds(2)	3,804	—	3,804
Equity Shares and Others(3)	963	257	706
	<u>\$7,832</u>	<u>\$257</u>	<u>\$7,575</u>

- (1) This category comprises government fixed income investments with investments in India and Sri Lanka.
- (2) This category represents investment in bonds and debentures from diverse industries.
- (3) This category represents equity shares, money market investments and other investments.

The fair values of the government bonds are measured based on market quotes. Corporate bonds and other bonds are valued based on market quotes as of the balance sheet date. Equity share funds are valued at their market prices as of the balance sheet date. Money market funds are valued at their market price.

Pension liability

	<u>March 31,</u>	
	<u>2018</u>	<u>2017</u>
PBO	\$10,524	\$9,148
Fair value of plan assets	9,885	7,832
Funded status recognized	\$ 639	\$1,316
Amount recorded in accumulated other comprehensive income . . .	<u>\$ 1,763</u>	<u>\$1,397</u>

The amount in accumulated other comprehensive income (loss) that is expected to be recognized as a component of net periodic benefit cost over the fiscal year ended March 31, 2019 is \$167. The Company expects to contribute \$1,794 to its gratuity plans during the fiscal year ending March 31, 2019.

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(15) Post-retirement Benefits (Continued)

The pretax amounts of prior service cost and actuarial gain (loss) recognized from accumulated other comprehensive income consists of:

	March 31,		
	2018	2017	2016
Prior service cost	\$ (9)	\$ (9)	\$ (9)
Net amortization gain (loss)	(138)	(135)	(151)
Total	<u>\$(147)</u>	<u>\$(144)</u>	<u>\$(160)</u>

Estimated future benefits payments

<u>Fiscal year ending March 31:</u>	
2019	\$ 1,795
2020	1,776
2021	1,970
2022	2,221
2023	2,546
2024 - 2027	\$14,105

(16) 401(k) Plan

The Company sponsors a defined contribution retirement savings plan, qualified under Section 401(k) of the Internal Revenue Code (the “401(k) Plan”). Eligible employees may defer a portion of their compensation into the Company’s 401(k) Plan on a pre-tax and/or Roth basis. The Company’s 401(k) Plan currently offers a safe harbor match feature that provides Company matching contributions for certain employee contributions. For the fiscal periods ended March 31, 2018 and 2017, the Company recorded \$1,407 and \$1,305 for the employer match, respectively. The Company’s 401(k) Plan may be amended at the discretion of the Company’s board of directors to discontinue the safe harbor match program at any time.

(17) Restructuring

During the three months ended September 30, 2017, the Company implemented certain cost saving and restructuring initiatives related to a workforce reduction. During the fiscal year ended March 31, 2018, the Company incurred \$1,371, primarily related to termination benefits, which have been included in selling, general and administrative expenses in the consolidated statements of income. The Company completed these initiatives by March 31, 2018.

The following table summarizes the above restructuring charges during the period ending March 31, 2018:

	March 31, 2018
Balance at April 1, 2017	\$ —
Provisions	1,371
Cash Payments	969
Balance at March 31, 2018	<u>\$ 402</u>

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(18) Accumulated Other Comprehensive Loss

The changes in the components of accumulated other comprehensive loss were as follows:

	March 31,		
	2018	2017	2016
Investment securities			
Beginning balance	\$ 57	\$ 23	\$ (18)
Other comprehensive income (loss) (OCI) before reclassifications, net of tax of \$108, \$57, \$35	175	72	102
Reclassifications from OCI to other income, net of tax of \$(246), \$3, \$(22)	(190)	6	(64)
Less: Noncontrolling interests, net of tax of \$15, \$(23), \$0	27	(44)	3
Comprehensive income (loss) on investment securities, net of tax of \$(123), \$37, \$13	12	34	41
Closing Balance	\$ 69	\$ 57	\$ 23
Currency translation adjustments			
Beginning balance	\$(50,415)	\$(45,211)	\$(35,565)
OCI before reclassifications	8,262	(3,810)	(9,324)
Less: Noncontrolling interests	946	(1,394)	(322)
Comprehensive income (loss) on currency translation adjustments	9,208	(5,204)	(9,646)
Closing balance	\$(41,207)	\$(50,415)	\$(45,211)
Cash flow hedges			
Beginning balance	\$ 11,789	\$ 3,934	\$ 2,387
OCI before reclassifications net of tax of \$1,265, \$6,713, \$1,797	2,428	16,328	3,373
Reclassifications from OCI to			
—Revenue, net of tax of \$(3,036), \$(1,432), \$(94)	(5,651)	(2,706)	(178)
—Costs of revenue, net of tax of \$(1,543), \$(1,015), \$55	(4,855)	(3,526)	(446)
—Selling, general and administrative expenses, net of tax of \$(852), \$(611), \$42	(2,748)	(2,107)	(236)
—Interest expenses, net of tax of \$(64), \$0, \$0	(160)		
Less: Noncontrolling interests, net of tax of \$571, \$(71), \$(512)	1,078	(134)	(966)
Comprehensive income (loss) on cash flow hedges, net of tax of \$(3,659), \$3,583, \$1,288	(9,908)	7,855	1,547
Closing balance	\$ 1,881	\$ 11,789	\$ 3,934
Benefit plans			
Beginning balance	\$ (1,180)	\$ (885)	\$ (932)
OCI before reclassifications net of tax of \$(198), \$(227), \$(52)	(364)	(379)	(173)
Reclassifications from net actuarial gain (loss) amortization to:			
—Costs of revenue, net of tax of \$34, \$32, \$24	62	53	78
—Selling, general and administrative expenses, net of tax of \$15, \$18, \$11	27	32	36
Reclassifications from OCI for prior service credit (cost) to:			
—Costs of revenue, net of tax of \$3, \$3, \$2	5	5	6
—Selling, general and administrative expenses, net of tax of \$0 for all periods	1	1	1
Other adjustments	20	12	99
(Less): Noncontrolling interests, net of tax \$2, \$(10), \$0	5	(19)	—
Comprehensive income (loss) on benefit plans, net of tax of \$(144), \$(184), \$15	(244)	(295)	47
Closing balance	(1,424)	\$ (1,180)	\$ (885)
Accumulated other comprehensive loss	\$(40,681)	\$(39,749)	\$(42,139)

(19) Commitments, Contingencies and Guarantees

The Company leases office space under operating leases, which expire at various dates through fiscal year 2025. Certain leases contain renewal provisions and generally require the Company to pay utilities, insurance, taxes, and other operating expenses.

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(19) Commitments, Contingencies and Guarantees (Continued)

Future minimum lease payments under non-cancelable leases for the five fiscal years following March 31, 2018 and thereafter are:

	<u>Operating Leases</u>	<u>Capital Leases</u>
Fiscal year ending March 31:		
2019	\$11,274	56
2020	10,783	35
2021	9,933	12
2022	8,398	1
2023	5,483	—
2024 and thereafter	14,661	—
Total minimum lease payments	<u>\$60,532</u>	104
Less: amount representing interest		<u>15</u>
Present value of future lease payments		89
Less: current portion		<u>47</u>
Long term capital lease obligation		<u>42</u>

Total rental expense for operating leases was approximately \$12,011 \$11,701 and \$9,350 for the fiscal years ended March 31, 2018, 2017 and 2016, respectively. Total amortization expenses for the assets purchased under capital leases were \$88, \$116 and \$130 for the fiscal year ended March 31, 2018, 2017 and 2016 respectively.

The Company indemnifies its officers and directors for certain events or occurrences under its charter or by-laws and under indemnification agreements while the officer or director is, or was, serving at its request in a defined capacity. The term of the indemnification period is with respect to the period that such person was an officer or director of the Company. The maximum potential amount of future payments the Company could be required to make under these indemnification obligations is unlimited. The costs incurred to defend lawsuits or settle claims related to these indemnification obligations have not been material. As a result, the Company believes that its estimated exposure on these obligations is minimal. Accordingly, the Company had no liabilities recorded for these obligations as of March 31, 2018.

The Company is insured against any actual or alleged act, error, omission, neglect, misstatement or misleading statement or breach of duty by any current or former officer, director or employee while rendering information technology services. The Company believes that its financial exposure from such actual or alleged actions, should they arise, is minimal and no liability was recorded at March 31, 2018.

The Company is not a party to any pending litigation or other legal proceedings that are likely to have a material adverse effect on its consolidated financial statements.

(20) Derivative Financial Instruments

The Company evaluates its foreign exchange policy on an ongoing basis to assess its ability to address foreign exchange exposures on its consolidated balance sheets, statements of income and consolidated statement of cash flows from all foreign currencies, including most significantly the U.K. pound sterling,

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(20) Derivative Financial Instruments (Continued)

Indian rupee and Sri Lankan rupee. The Company enters into hedging programs with highly rated financial institutions in accordance with its foreign exchange policy (as approved by the Company's audit committee and board of directors) which permits hedging of material, known foreign currency exposures. There is no margin required, no cash collateral posted or received by us related to our foreign exchange forward contracts. Currently, the Company maintains four hedging programs, each with varying contract types, duration and purposes. The Company's "Cash Flow Program" is designed to mitigate the impact of volatility in the U.S. dollar equivalent of the Company's Indian rupee denominated expenses over a rolling 18-month period. The Cash Flow Program transactions currently meet the criteria for hedge accounting as cash flow hedges. In addition, as part of the Polaris acquisition, the Company has assumed a cash flow program designed to mitigate the impact of the volatility of the translation of Polaris U.S. dollar denominated revenue into Indian rupees over a rolling 18 month period ("Polaris Cash Flow Program"). These cash flow hedges meet the criteria for hedge accounting as cash flow hedges. The Company's "Balance Sheet Program" involves the use of 30-day derivative instruments designed to mitigate the monthly impact of foreign exchange gains/losses on certain intercompany balances and payments. The Company's Balance Sheet Program is currently inactive. The Company's "Economic Hedge Program" involves the purchase of derivative instruments with maturities of up to 92 days, and is designed to mitigate the impact of foreign exchange on U.K. pound sterling, the euro and Swedish krona denominated revenue and costs with respect to the quarter for which such instruments are purchased. The Balance Sheet Program and the Economic Hedge Program are treated as economic hedges as these programs do not meet the criteria for hedge accounting and all gains and losses are recognized in consolidated statement of income under the same line item as the underlying exposure being hedged.

The Company is exposed to credit losses in the event of non-performance by the counterparties on its financial instruments. All counterparties currently have investment grade credit ratings. The Company anticipates that these counterparties will be able to fully satisfy their obligations under the contracts. The Company has derivative contracts with six counterparties as of March 31, 2018.

The Company's agreements with its counterparties contain provisions pursuant to which the Company could be declared in default of its derivative obligations. As of March 31, 2018, the Company had not posted any collateral related to these agreements. If the Company had breached any of these provisions as of March 31, 2018, it could have been required to settle its obligations under these agreements at amounts which approximate the March 31, 2018 fair values reflected in the table below. During the fiscal year ended March 31, 2018, the Company was not in default of any of its derivative obligations.

Changes in fair value of the designated cash flow hedges for our Cash Flow Program as well as the Polaris Cash Flow Program are recorded as a component of accumulated other comprehensive income (loss) ("AOCI"), net of tax until the forecasted hedged transactions occur and are then recognized in the consolidated statements of income in the same line item as the item being hedged. The Company evaluates hedge effectiveness at the time a contract is entered into, as well as on an ongoing basis. If and when hedge relationships are discontinued, and should the forecasted transaction be deemed probable of not occurring by the end of the originally specified period or within an additional two-month period of time thereafter, any related derivative amounts recorded in equity are reclassified to earnings in other income (expense). There were no amounts reclassified to earnings as a result of hedge ineffectiveness for the fiscal year ended March 31, 2018 and 2017.

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(20) Derivative Financial Instruments (Continued)

Changes in the fair value of the hedges for the Balance Sheet Program and the Economic Hedge Program, if any, are recognized in the same line item as the underlying exposure being hedged and the ineffective portion of cash flow hedges, if any, is recognized as other income (expense). The Company values its derivatives based on market observable inputs including both forward and spot prices for currencies. Any significant change in the forward or spot prices for hedged currencies would have a significant impact on the value of the Company's derivatives.

The U.S. dollar notional value of all outstanding foreign currency derivative contracts was \$140,347 and \$153,435 at March 31, 2018 and 2017, respectively. Unrealized net gains related to these contracts which are expected to be reclassified from AOCI to earnings during the next 12 months are \$1,086 at March 31, 2018. At March 31, 2018, the maximum outstanding term of any derivative instrument was 15 months.

The Company also uses interest rate swaps to mitigate the Company's interest rate risk on the Company's variable rate debt. The Company's objective is to limit the variability of cash flows associated with changes in LIBOR interest rate payments due on the Credit Agreement (see note 11 to the Consolidated financial statements), by using pay-fixed, receive-variable interest rate swaps to offset the future variable rate interest payments. The Company will recognize these transactions in accordance with ASC 815 "*Derivatives and Hedging*," and have designated the swaps as cash flow hedges.

The Interest Rate Swap Agreements have an effective date of July 31, 2017 and a maturity date of July 31, 2020. The swaps have an aggregate notional amount of \$90,000 and hedge approximately 29.5% of the Company's outstanding debt balance as of March 31, 2018. The notional amount of the swaps amortizes over the remaining swap periods. The Interest Rate Swap agreements require the Company to make monthly fixed interest rate payments based on the amortized notional amount at a blended weighted average rate of 1.025% and the Company will receive 1-month LIBOR on the same notional amounts.

The counterparties to the Interest Rate Swap Agreements could demand an early termination of the 2016 Swap Agreements if the Company is in default under the Prior Credit Agreement, or any agreement that amends or replaces the Prior Credit Agreement in which the counterparty is a member, and the Company is unable to cure the default. An event of default under the Prior Credit Agreement includes customary events of default and failure to comply with financial covenants, including a maximum consolidated leverage ratio commencing on December 31, 2016, of not more than 3.25 to 1.00 for the first year of the Prior Credit Agreement, of not more than 3.00 to 1.00 for the second year of the Prior Credit Agreement, and 2.75 to 1.00 thereafter, each as determined for the four consecutive quarter period ending on each fiscal quarter and a minimum consolidated fixed charge coverage ratio of 1.25 to 1.00. As of March 31, 2018, the Company was in compliance with these covenants. The unrealized gain associated with the 2016 Swap Agreements was \$2,486 and \$1,842 at March 31, 2018 and March 31, 2017, respectively, which represents the estimated amount that the Company would receive from the counterparties in the event of an early termination.

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(20) Derivative Financial Instruments (Continued)

The following tables set forth the fair value of derivative instruments included in the consolidated balance sheets at March 31, 2018 and March 31, 2017:

Derivatives designated as hedging instruments

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Foreign currency exchange contracts:		
Other current assets	\$2,109	\$15,544
Other long-term assets	13	\$ 887
Accrued expenses and other	1,023	\$ —
Long-term liabilities	—	\$ —
	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Interest rate swap contracts:		
Other long-term assets	2,486	\$1,842

The following tables set forth the effect of the Company's foreign currency exchange and interest rate swap contracts on the consolidated financial statements of the Company for the fiscal years ended March 31, 2018 and 2017:

	Amount of Gain or (Loss) Recognized in AOCI on Derivatives	
	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Derivatives Designated as Cash Flow Hedging Relationships		
Foreign currency exchange contracts	\$2,825	\$21,199
Interest rate swaps	\$ 868	\$ 1,842

	Amount of Gain or (Loss) Reclassified from AOCI into Income	
	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Location of Gain or (Loss) Reclassified from AOCI into Income		
Revenue	\$8,687	\$4,138
Costs of revenue	\$6,398	\$4,541
Operating expenses	\$3,600	\$2,718
Interest Expenses	\$ 224	—

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(20) Derivative Financial Instruments (Continued)

<u>Derivatives not Designated as Hedging Instruments</u>	<u>Location of Gain Or (Loss) Recognized in Income on Derivatives</u>	<u>Amount of Gain or (Loss) Recognized in Income on Derivatives</u>	
		<u>March 31, 2018</u>	<u>March 31, 2017</u>
Foreign currency exchange contracts	Foreign currency transaction gains (losses)	\$ —	\$(180)
	Revenue	\$(171)	\$(409)
	Costs of revenue	\$ 73	\$ 111
	Selling, general and administrative expenses	\$ (47)	\$ (17)

(21) Business Segment Information

Accounting pronouncements establish standards for the manner in which public companies report information about operating segments in annual and interim financial statements. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker on deciding on how to allocate resources and in assessing performance. The Company's chief operating decision-maker is considered to be the Company's Chief Executive Officer. The Company's Chief Executive Officer reviews financial information presented on an entity level basis for purposes of making operating decisions and assessing financial performance. Therefore, the Company has determined that it operates in a single operating and reportable segment.

Geographic information:

Total revenue is attributed to geographic areas based on location of the client. Geographic information is summarized as follows:

	<u>Year Ended March 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Customer revenue:			
United States of America	\$ 628,147	\$532,244	\$413,914
United Kingdom	195,547	164,970	109,015
Rest of World	196,975	161,517	77,373
Consolidated revenue	<u>\$1,020,669</u>	<u>\$858,731</u>	<u>\$600,302</u>
		<u>March 31,</u>	
		<u>2018</u>	<u>2017</u>
Long-lived assets, net of accumulated depreciation and amortization:			
United States of America		\$213,024	\$ 91,500
India		276,512	271,345
Rest of World		25,281	25,495
Consolidated long-lived assets, net		<u>\$514,817</u>	<u>\$388,340</u>

Virtusa Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(thousands, except share and per share amounts)

(22) Quarterly Results of Operations (unaudited)

	Three Months Ended							
	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Revenue	\$281,341	\$263,809	\$248,174	\$227,345	\$225,962	\$217,209	\$210,089	\$205,471
Costs of revenue	197,342	183,420	178,404	166,279	160,174	154,847	152,369	153,560
Gross profit	83,999	80,389	69,770	61,066	65,788	62,362	57,720	51,911
Operating expenses	67,624	66,726	59,491	54,996	55,564	55,904	54,183	53,759
Income (loss) from operations	16,375	13,663	10,279	6,070	10,224	6,458	3,537	(1,848)
Other income (expense)	(5,582)	2,843	(1,187)	(625)	5,485	(2,331)	1,418	(4,125)
Income (loss) before income tax expense	10,793	16,506	9,092	5,445	15,709	4,127	4,955	(5,973)
Income tax expense (benefit)	6,163	24,427	1,500	798	3,939	(1,414)	499	(463)
Net income (loss)	4,630	(7,921)	7,592	4,647	11,770	5,541	4,456	(5,510)
Noncontrolling interest	1,747	2,134	2,824	989	1,305	1,106	1,242	746
Net income (loss) available to Virtusa stockholders	\$ 2,883	\$(10,055)	\$ 4,768	\$ 3,658	\$ 10,465	\$ 4,435	\$ 3,214	\$ (6,256)
Less: Series A Convertible Preferred Stock dividends and accretion	1,088	1,087	1,087	701	—	—	—	—
Net income (loss) available to Virtusa common stockholders	1,795	(11,142)	\$ 3,681	\$ 2,957	\$ 10,465	\$ 4,435	\$ 3,214	\$ (6,256)
Basic earnings (loss) per share	\$ 0.06	\$ (0.38)	\$ 0.13	\$ 0.10	\$ 0.35	\$ 0.15	\$ 0.11	\$ (0.21)
Diluted earnings (loss) per share	\$ 0.06	\$ (0.38)	\$ 0.12	\$ 0.10	\$ 0.34	\$ 0.15	\$ 0.11	\$ (0.21)

(23) Subsequent Events

On April 18, 2018, the Company purchased multiple foreign currency forward contracts designed to hedge fluctuation in the U.K. pound sterling (“GBP”) against the U.S. dollar and the Euro (“EUR”) against the U.S. dollar (the “Euro contracts”), each of which will expire on various dates during the period ending June 29, 2018. The GBP contracts have an aggregate notional amount of approximately £2,346 (approximately \$3,336) and the EUR contracts have an aggregate notional amount of approximately EUR 1,130 (approximately \$1,402). The weighted average U.S. dollar settlement rate associated with the GBP contracts is \$1.422 and the weighted average U.S. dollar settlement rate associated with the EUR contracts is approximately \$1.241.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.*

None.

Item 9A. *Controls and Procedures.*

(1) Evaluation of Disclosure Controls and Procedures

We have carried out an evaluation, under the supervision and the participation of our management of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Securities Exchange Act), as of March 31, 2018. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of that period, our disclosure controls and procedures are effective in providing reasonable assurance that (a) the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (b) such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

(2) Report of Management on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act as a process designed by, or under the supervision of, the issuers principal executive and principal financial officers or other persons performing similar functions and effected by the issuers board of directors, management and other personnel 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. Our 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 the transactions and dispositions of the assets of the issuer;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the receipts and expenditures of the issuers are being made only in accordance with authorizations of the management and directors of the issuer; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer'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. 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.

Our management assessed the effectiveness of our internal control over financial reporting as of March 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework 2013.

Based on this assessment, our management has concluded that, as of March 31, 2018, our internal control over financial reporting was effective based on those criteria.

We have acquired all of the outstanding shares of eTouch Systems Corp. and eTouch Systems (India) Pvt. Ltd (together “eTouch”) on March 12, 2018, and management excluded from its assessment of the effectiveness of our internal controls over financial reporting as of March 31, 2018 the eTouch internal controls over financial reporting associated with 14.5% of total assets (of which 11.9% represents goodwill and intangible assets) and 0.6% total revenues included in the consolidated financial statements of the Company as of and for the year ended March 31, 2018.

The effectiveness of our internal control over financial reporting as of March 31, 2018 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

(3) Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of fiscal 2018 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.*

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement is expected to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended March 31, 2018.

Item 11. *Executive Compensation.*

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement is expected to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended March 31, 2018.

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

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement is expected to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended March 31, 2018.

Item 13. *Certain Relationships and Related Transactions, and Director Independence.*

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement is expected to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended March 31, 2018.

Item 14. *Principal Accountant Fees and Services.*

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement is expected to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended March 31, 2018.

PART IV

Item 15. *Exhibits and Financial Statement Schedules.*

The following are filed as part of this Annual Report on Form 10-K:

1. **Financial Statements**

The following consolidated financial statements are included in Item 8:

Reports of Independent Registered Public Accounting Firm	91
Consolidated Balance Sheets at March 31, 2018 and 2017	94
Consolidated Statements of Income (Loss) for the Years Ended March 31, 2018, 2017 and 2016	95
Consolidated Statements of Comprehensive Income (Loss) for the Years ended March 31, 2018, 2017 and 2016	96
Consolidated Statements of Stockholders' Equity for the Years ended March 31, 2018, 2017 and 2016	97
Consolidated Statements of Cash Flows for the Years Ended March 31, 2018, 2017 and 2016	98
Notes to Consolidated Financial Statements	99

2. **Financial Statement Schedules**

The financial statement schedule entitled "Schedule II—Valuation and Qualifying Accounts" is filed as part of this Annual Report on Form 10-K under this Item 15.

All other schedules have been omitted since the required information is not present, or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements or the Notes thereto.

Virtusa Corporation and Subsidiaries
Schedule II—Valuation and Qualifying Accounts
For the years ended March 31, 2018, 2017, and 2016

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions/ Other</u>	<u>Balance at End of Period</u>
	(In thousands)			
Accounts receivable allowance for doubtful accounts:				
Year ended March 31, 2016	\$ 881	\$ 208	\$ (43)	\$1,046
Year ended March 31, 2017	\$1,046	\$1,015	\$(256)	\$1,805
Year ended March 31, 2018	\$1,805	\$1,248	\$ 275	\$3,328

3. Exhibits

The following exhibits are filed as part of and incorporated by reference into this Annual Report:

<u>Exhibit No.</u>	<u>Exhibit Title</u>
2.1++	Equity Purchase Agreement by and among the Company, eTouch Systems Corp., and the equity holders thereof and Ani Gadre as equityholder representative, dated as of March 12, 2018 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 001-33625) filed on March 13, 2018 and incorporated by reference herein).
2.2++	Share Purchase Agreement by and among Virtusa Software Services Private Limited, Virtusa Consulting Services Private Limited, eTouch Systems (India) Pvt. Ltd and the equityholders thereof, dated as of March 12, 2018 (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K (File No. 001-33625) filed on March 13, 2018 and incorporated by reference herein).
2.3++	Share Purchase Agreement dated as of November 5, 2015 by and among Virtusa Consulting & Services Private Limited, the stockholders listed in Schedules I and II therein and Polaris Consulting Services & Limited (previously filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K (File No. 001-33625) filed on November 5, 2015 and incorporated by reference herein).
2.4++	Amendment to Share Purchase Agreement, dated as of February 25, 2016, by and among the Company, Polaris Consulting & Services Ltd. and the other parties thereto. Limited (previously filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K (File No. 001-33625) filed on March 2, 2016 and incorporated by reference herein).
3.1	Amended and Restated By-laws of the Registrant (previously filed as Exhibit 3.1 of the Company's Current Report on Form 8-K (File No. 001-33625) filed on August 1, 2017 and incorporated by reference herein)
3.2	Form of Seventh Amended and Restated Certificate of Incorporation of the Registrant (previously filed as Exhibit 3.3 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333- 141952) and incorporated herein by reference).
4.1	Specimen certificate evidence shares of the Registrant's common stock (previously filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
4.2	Certificate of the Powers, Designations, Preferences and Rights of the 3.875% Series A Convertible Preferred Stock (previously filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-33625) filed May 3, 2017 and incorporated by reference herein).
4.3	Certificate of the Powers, Designations, Preferences and Rights of the 3.875% Series A-1 Convertible Preferred Stock (previously filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K (File No. 001-33625) filed May 3, 2017 and incorporated by reference herein).
10.1	Lease by and between the Registrant and 132 Turnpike Road LLC dated as of October 23, 2017 (previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-33625) filed November 8, 2017 and incorporated herein by reference).

Exhibit No.	Exhibit Title
10.2	Lease by and between Orion Development (Private) Limited and Virtusa (Private) Limited. Dated as of November 17, 2017. (previously filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-33625) filed February 8, 2018 and incorporated herein by reference).
10.3++	Stock Purchase Agreement by and among Virtusa Corporation, Apparatus, Inc., an Indiana corporation, and Kelly Pfledderer and the other selling stockholder listed therein, dated as of April 1, 2015 (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed April 1, 2015, and incorporated herein by reference).
10.4++	Asset Purchase Agreement by and Virtusa Corporation, Agora Group, Inc. ("Agora") and the sole stockholder of Agora dated as of July 28, 2015 (previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-33625) filed July 30, 2015 and incorporated by reference herein).
10.5++	Investment Agreement, dated as of May 3, 2017, between the Company and Orogen Viper LLC (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-33625) filed May 3, 2017 and incorporated by reference herein).
10.6+	Form of Indemnification Agreement between the Registrant and each of its directors (previously filed as Exhibit 10.7 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333- 141952) and incorporated herein by reference).
10.7+	Executive Agreement between the Registrant and Kris Canekeratne, dated as of April 5, 2007 (previously filed as Exhibit 10.10 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333- 141952) and incorporated herein by reference).
10.8+	Executive Agreement between the Registrant and Ranjan Kalia, dated as of July 15, 2009 (previously filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed July 17, 2009 and incorporated herein by reference).
10.9+	Executive Agreement between the Registrant and Thomas R. Holler, dated as of April 5, 2007 (previously filed as Exhibit 10.12 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333- 141952) and incorporated herein by reference).
10.10+	Executive Agreement between the Registrant and Roger Keith Modder, dated as of April 5, 2007 (previously filed as Exhibit 10.13 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.11+	Executive Agreement between the Registrant and Raj Rajgopal, dated as of July 15, 2009 (previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed July 17, 2009 and incorporated herein by reference).
10.12+	Amended and Restated Executive Agreement between the Registrant and Samir Dhir dated as of August 1, 2017 (previously filed as Exhibit 99.2 to the Registrant's Current Report on Form 8-K (File No. 001-33625) filed on August 8, 2017 and incorporated herein by reference).
10.13	Co-Developer Agreement and Lease Deed between the Registrant and APIICL, a state government agency in India, dated as of March 2007 (previously filed as Exhibit 10.15 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).

Exhibit No.	Exhibit Title
10.14+	2007 Stock Option and Incentive Plan, including Form of Incentive Stock Option Agreement, Form of Non-Qualified Stock Option Agreement for Company Employees, Form of Non-Qualified Stock Option Agreement for Non-Employee Directors, and Form of Employee Restricted Stock Agreement (previously filed as Exhibit 10.15 to the Registrant's Annual Report on Form 10-K, filed June 3, 2008, and incorporated herein by reference).
10.15+	Form of Deferred Stock Award Agreement under the 2007 Stock Option and Incentive Plan (previously filed as Exhibit 10.34 to the Registrant's Annual Report on Form 10-K filed May 27, 2011 and incorporated herein by reference).
10.16+	Virtusa Corporation 2015 Stock Option and Incentive Plan, including, Form of Non-Qualified Stock Option Agreement for Company Employees, Form of Non-Qualified Stock Option Agreement for Non-Employee Directors, Form of Non-Qualified Stock Option Agreement for Company Employees—INDIA, Form of Employee Restricted Stock Award Agreement, Form of Restricted Stock Award Agreement for Non-Employee Directors Form of Employee Restricted Stock Award Agreement—INDIA, Form of Employee Restricted Stock Unit Agreement, Form of Restricted Stock Unit Agreement for Non-Employee Directors, Form of Employee Restricted Stock Unit Agreement—INDIA, Form of Employee Performance Based Restricted Stock Award Agreement, Form of Employee Performance Based Restricted Stock Award Agreement—INDIA, Form of Employee Performance Based Restricted Stock Unit Agreement, Form of Employee Performance Based Restricted Stock Unit Agreement—INDIA (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-33625) filed September 4, 2015 and incorporated by reference herein).
10.17	Lease Deed by and between DLF Assets Private Limited and Virtusa Software Services Pvt. Ltd. dated as of May 4, 2014. (previously filed as Exhibit 10.23 to the Registrant's Annual Report on Form 10-K filed May 23, 2014 and incorporated herein by reference).
10.18	Lease Deed by and between Andhra Pradesh Industrial Infrastructure Corporation Limited and Virtusa (India) Private Limited dated as of August 22, 2007 (previously filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, filed September 7, 2007, and incorporated herein by reference).
10.19	Credit Agreement, dated as of February 25, 2016, by and among the Company, its guarantor subsidiaries party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent and J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint bookrunners and lead arrangers. (previously filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed March 2, 2016, and incorporated herein by reference).
10.20++	Asset Purchase Agreement by and among the Company, OSB Consulting, LLC., a New Jersey limited liability company, and the sole member thereof dated November 1, 2013 (previously filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed November 4, 2013, and incorporated herein by reference).
10.21++	Share Purchase Agreement by and among Virtusa International B.V. and the shareholders of TradeTech Consulting Scandinavia AB listed on the signature pages thereto dated as of January 2, 2014 (previously filed as Exhibit 10.7 to the Registrant's Current Report on Form 8-K, filed January 6, 2014, and incorporated herein by reference).

Exhibit No.	Exhibit Title
10.22+	Fourth Amended and Restated Non-Employee Director Compensation Policy, effective December 5, 2017 (previously filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K (File No. 001-33625), filed December 7, 2017, and incorporated herein by reference).
10.23†	Master Professional Services Agreement (CITI-CONTRACT-14084-2015) dated as of July 1, 2015 by and between Polaris Consulting & Services Ltd and Citigroup Technology, Inc. (previously filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-33625) filed on February 8, 2016, and incorporated herein by reference).
10.24†	Amendment #1 to Polaris Master Professional Services Agreement and Termination of Virtusa Master Professional Services Agreement by and among Polaris Consulting & Services Ltd, Citigroup Technology, Inc. and Virtusa Corporation dated as of November 5, 2015 (previously filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q/A (File No. 001-33625) filed on May 23, 2016, and incorporated herein by reference).
10.25†	Amendment #2 to Master Professional Services Agreement dated as of May 10, 2016 by and between Polaris Consulting & Services Ltd and Citigroup Technology, Inc. (previously filed as Exhibit 10.37 to the Registrant's Annual Report on Form 10-K (File No. 001-33625) filed on May 27, 2016, and incorporated herein by reference).
10.26†	Amendment #2 to Master Professional Services Agreement (CITI-CONTRACT-14084-2015) dated as of May 1, 2017 by and between Polaris Consulting & Services Ltd and Citigroup Technology, Inc. (previously filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-33625) filed on August 8, 2017, and incorporated herein by reference).
10.27†	Amendment No. 1 to Credit Agreement with JPMorgan Chase Bank, N.A. and the lenders party thereto (previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 001-33625) filed May 3, 2017 and incorporated by reference herein).
10.28†	Amendment No. 1 to Amended and Restated Credit Agreement, dated March 12, 2018 with JPMorgan Chase Bank, N.A. and the lenders party thereto (previously filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K (File No. 001-33625) filed March 13, 2018 and incorporated by reference herein).
10.29†	Amendment No. 2 to Credit Agreement, dated as of January 11, 2018 with JPMorgan Chase Bank, N.A. and the lenders party thereto (previously filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-33625) filed February 8, 2018 and incorporated by reference herein).
10.30+	Polaris Employment Contract, dated September 26, 2012, between Polaris Software Lab Ltd. and Jitin Goyal (previously filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed March 9, 2016, and incorporated herein by reference).
10.31+	Settlement Agreement dated as of November 9, 2016 by and between Polaris Consulting and Services Limited and Jitin Goyal (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-33625), filed November 9, 2016 and incorporated herein by reference).
10.32+	Separation Agreement dated as of November 9, 2016 by and between Polaris Consulting & Services Ltd and Jitin Goyal (previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 001-33625), filed November 9, 2016 and incorporated herein by reference).

Exhibit No.	Exhibit Title
21.1*	Subsidiaries of Registrant.
23.1*	Consent of KPMG LLP.
24.1*	Power of Attorney (included on signature page).
31.1*	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of principal accounting and financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350.
32.2**	Certification of principal accounting and financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350.
101*	The following materials from the Registrant's Annual Report on Form 10-K for the year ended March 31, 2018 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income (Loss), (iii) Consolidated Statements of Comprehensive Income (loss), (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) related notes to these financial statements.

+ Indicates a management contract or compensation plan, contract or arrangement.

++ Schedules (or similar attachments) to the applicable share or stock purchase agreement or asset purchase agreement, as the case may be, have been omitted from this filing pursuant to Item 601(b)(2) of Regulation S-K. The Company supplementally will furnish copies of such omitted schedules (or similar attachments) to the Securities and Exchange Commission upon request.

† Confidential treatment has been requested for certain provisions of this Exhibit.

* Filed herewith.

** Furnished herewith. This certification shall not be deemed filed for any purpose, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933, amended or the Exchange Act of 1934, as amended.

Item 16. FORM 10-K SUMMARY

None.

Signature

Title

/s/ WILLIAM K. O'BRIEN
William K. O'Brien Director

/s/ AL-NOOR RAMJI
Al-Noor Ramji Director

/s/ BARRY R NEARHOS
Barry R. Nearhos Director

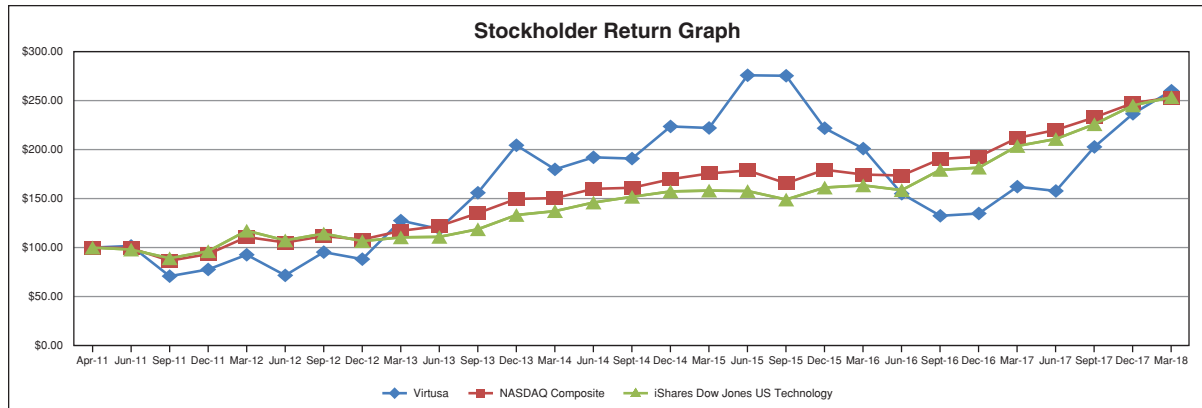
/s/ JOSEPH DOODY
Joseph Doody Director

NOTES

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Stock price performance presentation

The following graph (“Stockholder Return Graph”) compares the cumulative seventy-two month total stockholder return on our common stock from April 1, 2011 through March 31, 2018, with the cumulative eighty-seven month return, during the equivalent period, on the (i) NASDAQ Composite Index and (ii) iShares Dow Jones US Technology Index (“IYW”). The comparison assumes the investment of \$100 on April 1, 2011, in our common stock and in each of the comparison indices and, in each case, assumes reinvestment of all dividends.



At March 31, 2018, there were approximately 29,665,349 shares of our common stock outstanding held by approximately 101 stockholders of record and the last reported sale price of our common stock on the NASDAQ Global Select Stock Market on March 29, 2018 was \$48.46 per share.

Corporate Information

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E-mail: InvestorRelations@virtusa.com

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Chairman and Chief Executive Officer
Izhar Armony
Rowland T. Moriarty
William K. O'Brien
Al-Noor Ramji
Barry R. Nearhos
Joseph G. Doody
Vikram S. Pandit

Executive Officers

Kris Canekeratne,
Chairman and Chief Executive Officer

Ranjan Kalia,
Executive Vice President, Finance, Chief
Financial Officer, Secretary and Treasurer

Samir Dhir,
President

Raj Rajgopal,
President, Digital Business Strategy

Thomas Holler,
Executive Vice President,
Chief Strategy Officer

Keith Modder,
Executive Vice President,
Chief Operating Officer

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Executive Vice President,
Chief People Officer

United States

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