

ExlService Holdings, Inc.
Form 10-Q
May 01, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER 001-33089

EXLSERVICE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	82-0572194 (I.R.S. Employer Identification No.)
280 PARK AVENUE, 38th FLOOR	
NEW YORK, NEW YORK (Address of principal executive offices)	10017 (Zip code)
(212) 277-7100 (Registrant's telephone number, including area code)	

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 25, 2014, there were 32,673,862 shares of the registrant's common stock outstanding (excluding 1,188,385 shares held in treasury stock), par value \$0.001 per share.

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

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 143,692	\$ 148,065
Short-term investments	7,169	5,987
Restricted cash	816	423
Accounts receivable, net	77,737	76,121
Prepaid expenses	6,145	5,168
Deferred tax assets, net	5,455	6,958
Advance income tax, net	3,978	2,024
Other current assets	12,955	7,881
Total current assets	257,947	252,627
Fixed assets, net	44,031	34,564
Restricted cash	3,780	3,568
Deferred tax assets, net	9,905	12,254
Intangible assets, net	32,643	34,115
Goodwill	108,216	107,407
Other assets	21,489	18,897
Total assets	\$ 478,011	\$ 463,432
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 4,420	\$ 4,714
Deferred revenue	9,520	8,618
Accrued employee cost	18,371	29,405
Accrued expenses and other current liabilities	29,575	32,219
Current portion of capital lease obligations	1,108	1,119
Total current liabilities	62,994	76,075
Capital lease obligations, less current portion	1,222	1,371

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Non-current liabilities	19,107	19,812
Total liabilities	83,323	97,258
Commitments and contingencies (See Note 15)		
Preferred stock, \$0.001 par value; 15,000,000 shares authorized, none issued		
Stockholders' equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized, 33,822,673 shares issued and 32,634,288 shares outstanding as of March 31, 2014 and 33,342,312 shares issued and 32,172,183 shares outstanding as of December 31, 2013	34	33
Additional paid-in-capital	220,370	214,522
Retained earnings	248,126	236,979
Accumulated other comprehensive loss	(48,741)	(60,718)
Total stockholders' equity including shares held in treasury	419,789	390,816
Less: 1,188,385 shares as of March 31, 2014 and 1,170,129 shares as of December 31, 2013, held in treasury, at cost	(25,101)	(24,642)
Total stockholders' equity	394,688	366,174
Total liabilities and stockholders' equity	\$ 478,011	\$ 463,432

See accompanying notes.

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EXLSERVICE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except share and per share amounts)

	Three months ended March 31,	
	2014	2013
Revenues	\$ 121,797	\$ 116,006
Cost of revenues (exclusive of depreciation and amortization)	74,922	72,913
Gross profit	46,875	43,093
Operating expenses:		
General and administrative expenses	14,800	14,721
Selling and marketing expenses	10,232	9,755
Depreciation and amortization	6,356	6,512
Total operating expenses	31,388	30,988
Income from operations	15,487	12,105
Other income/(expense) :		
Foreign exchange loss	(833)	(49)
Interest and other income, net	958	703
Income before income taxes	15,612	12,759
Income tax provision	4,465	2,997
Net income	\$ 11,147	\$ 9,762
Earnings per share:		
Basic	\$ 0.34	\$ 0.30
Diluted	\$ 0.33	\$ 0.29
Weighted-average number of shares used in computing earnings per share:		
Basic	32,523,490	32,521,481
Diluted	33,428,544	33,719,794

See accompanying notes.

Table of Contents**EXLSERVICE HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)****(In thousands)**

	Three months ended March 31,	
	2014	2013
Net income	\$ 11,147	\$ 9,762
Other comprehensive income:		
Unrealized gain on effective cash flow hedges, net of taxes \$1,608 and \$626	5,402	1,447
Foreign currency translation adjustment	4,788	1,691
Reclassification adjustments		
Realized loss on cash flow hedges, net of taxes \$496 and \$428 ⁽¹⁾	1,758	926
Retirement benefits, net of taxes \$8 and \$8 ⁽²⁾	29	30
Total other comprehensive income	11,977	4,094
Total comprehensive income	\$ 23,124	\$ 13,856

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

(2) These are reclassified to net income and are included in the computation of net periodic pension costs in the unaudited consolidated statements of income. See Note 10 to the unaudited consolidated financial statements. See accompanying notes.

Table of Contents**EXLSERVICE HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOW****(Unaudited)****(In thousands)**

	Three months ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 11,147	\$ 9,762
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,356	6,512
Stock-based compensation expense	4,176	3,645
Amortization of deferred financing costs	38	38
Unrealized foreign exchange loss	1,895	958
Deferred income taxes	1,863	1,191
Gain on sale of fixed assets	(16)	
Non-controlling interest		1
Change in operating assets and liabilities:		
Restricted cash	(502)	(239)
Accounts receivable	(1,713)	(3,062)
Prepaid expenses and other current assets	(4,187)	(1,926)
Accounts payable	(124)	(367)
Deferred revenue	902	(265)
Accrued employee cost	(11,493)	(11,192)
Accrued expenses and other liabilities	(985)	1,071
Advance income tax, net	(1,822)	(141)
Other assets	(570)	636
Net cash provided by operating activities	4,965	6,622
Cash flows from investing activities:		
Purchase of fixed assets	(10,679)	(6,610)
Business acquisition (net of cash acquired)		(1,183)
Purchase of short-term investments	(1,005)	(51)
Net cash used for investing activities	(11,684)	(7,844)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(288)	(434)
Acquisition of treasury stock	(459)	(389)
Proceeds from exercise of stock options	1,673	1,378
Net cash provided by financing activities	926	555

Effect of exchange rate changes on cash and cash equivalents	1,420	(63)
Net decrease in cash and cash equivalents	(4,373)	(730)
Cash and cash equivalents, beginning of period	148,065	103,037
Cash and cash equivalents, end of period	\$ 143,692	\$ 102,307

See accompanying notes.

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EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

(Unaudited)

(In thousands, except share and per share amounts)

1. Organization and Basis of Presentation

Organization

ExlService Holdings, Inc. (ExlService Holdings) is organized as a corporation under the laws of the state of Delaware. ExlService Holdings, together with its subsidiaries (collectively, the Company), is a leading provider of business process solutions, utilizing operations management, analytics and technology. The Company 's clients are located principally in the U.S. and the U.K.

Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP) for interim financial information, the instructions to Form 10-Q and Article 10 of

Regulation S-X. Accordingly, they do not include all of the information and footnotes required by US GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company 's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

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

Certain amounts in the prior period financial statements have been reclassified to conform to the March 31, 2014 presentation.

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Table of Contents**EXLSERVICE HOLDINGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****March 31, 2014****(Unaudited)****(In thousands, except share and per share amounts)*****Recent Accounting Pronouncements***

In March 2013, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2013-05, *Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* (ASU 2013-05). It applies to the release of the currency translation adjustment into net income when a parent either sells a part of all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. ASU No. 2013-05 became effective from January 1, 2014 and the new guidance did not have any impact on the Company's unaudited consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (ASU No. 2013-11). The provisions of the rule require an unrecognized tax benefit to be presented as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward except in circumstances when the carryforward or tax loss is not available at the reporting date under the tax laws of the applicable jurisdiction to settle any additional income taxes or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purposes. When those circumstances exist, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU No. 2013-11 became effective from January 1, 2014 and the new guidance did not have any impact on the Company's unaudited consolidated financial statements.

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	March 31, 2014	December 31, 2013
Accrued expenses	\$ 19,539	\$ 20,607
Derivative instruments	4,170	7,689
Other current liabilities	5,866	3,923
Accrued expenses and other current liabilities	\$ 29,575	\$ 32,219

Non-current liabilities

Non-current liabilities consist of the following:

	March 31, 2014	December 31, 2013
Derivative instruments	\$ 2,336	\$ 5,606
Unrecognized tax benefits	4,974	4,776
Deferred rent	5,347	4,973
Retirement benefits	3,600	3,543
Other non-current liabilities	2,850	914
Non-current liabilities	\$ 19,107	\$ 19,812

Table of Contents**EXLSERVICE HOLDINGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****March 31, 2014****(Unaudited)****(In thousands, except share and per share amounts)****3. Earnings Per Share**

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

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

	Three months ended March 31,	
	2014	2013
Numerators:		
Net income	\$ 11,147	\$ 9,762
Denominators:		
Basic weighted average common shares outstanding	32,523,490	32,521,481
Dilutive effect of share based awards	905,054	1,198,313
Diluted weighted average common shares outstanding	33,428,544	33,719,794
Earnings per share:		
Basic	\$ 0.34	\$ 0.30
Diluted	\$ 0.33	\$ 0.29
Weighted average common shares considered anti-dilutive in computing diluted earnings per share	205,888	356,717

4. Segment Information

The Company provides various types of business process solutions utilizing operations management, analytics and technology. These services are provided in an integrated manner to clients in various industries. The chief operating

decision maker (CODM) generally reviews financial information at the consolidated statement of income level disaggregated by our two segments: outsourcing services and transformation services, but does not review any information except for revenues and cost of revenues of these individual segments. Therefore, the Company does not allocate or evaluate operating expenses, interest expense or income, capital expenditures, and income taxes to its operating segments. Consequently, it is not practical to show assets, capital expenditures, depreciation or amortization by segment.

Revenues and cost of revenues for each of the three months ended March 31, 2014 and 2013 for the Company's outsourcing services and transformation services segments, respectively, are as follows:

	Three months ended March 31, 2014			Three months ended March 31, 2013		
	Outsourcing Services	Transformation Services	Total	Outsourcing Services	Transformation Services	Total
	Revenues	\$ 100,091	\$ 21,706	\$ 121,797	\$ 97,572	\$ 18,434
Cost of revenues (exclusive of depreciation and amortization)	58,899	16,023	74,922	59,476	13,437	72,913
Gross profit	\$ 41,192	\$ 5,683	\$ 46,875	\$ 38,096	\$ 4,997	\$ 43,093
Operating expenses			31,388			30,988
Other income			125			654
Income tax provision			4,465			2,997
Net income			\$ 11,147			\$ 9,762

Table of Contents**EXLSERVICE HOLDINGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****March 31, 2014****(Unaudited)****(In thousands, except share and per share amounts)****5. Business Combinations, Goodwill and Intangible Assets*****Goodwill***

The following table sets forth details of the Company's goodwill balance as of March 31, 2014:

	Outsourcing Services	Transformation Services	Total
Balance at January 1, 2013	\$ 94,163	\$ 16,785	\$ 110,948
Currency translation adjustments	(3,291)		(3,291)
Allocation on sale of a business unit ⁽¹⁾	(250)		(250)
Balance at December 31, 2013	\$ 90,622	\$ 16,785	\$ 107,407
Currency translation adjustments	809		809
Balance at March 31, 2014	\$ 91,431	\$ 16,785	\$ 108,216

(1) Relates to the sale of a business unit during the year ended December 31, 2013. The net loss recognized from the sale of this business unit is \$190 and is included under other income/ (expense) in the consolidated statements of income in the company's annual report on Form 10-K for the year ended December 31, 2013.

Intangible Assets

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

	As of March 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 38,642	\$ (13,302)	\$ 25,340
Leasehold benefits	3,077	(1,572)	1,505
Developed technology	6,014	(1,651)	4,363

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Non-compete agreements	1,316	(1,316)	
Trade names and trademarks	3,322	(1,887)	1,435
	\$ 52,371	\$ (19,728)	\$ 32,643

As of December 31, 2013

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 38,614	\$ (12,201)	\$ 26,413
Leasehold benefits	2,986	(1,455)	1,531
Developed technology	6,013	(1,458)	4,555
Non-compete agreements	1,316	(1,316)	
Trade names and trademarks	3,322	(1,706)	1,616
	\$ 52,251	\$ (18,136)	\$ 34,115

Amortization expense for the three months ended March 31, 2014 and 2013 was \$1,536 and \$1,634, respectively. The weighted average life of intangible assets was 8.8 years for customer relationships, 6.8 years for leasehold benefits, 8.0 years for developed technology, 1.5 years for non-compete agreements and 3.5 years for trade names and trademarks excluding indefinite life trade names and trademarks. The Company had \$900 of indefinite life trade names and trademarks as of March 31, 2014 and December 31, 2013.

Table of Contents**EXLSERVICE HOLDINGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****March 31, 2014****(Unaudited)****(In thousands, except share and per share amounts)**

Estimated amortization of intangible assets during the year ending March 31,	
2015	\$ 5,655
2016	\$ 5,555
2017	\$ 5,551
2018	\$ 5,490
2019	\$ 5,426

6. Fair Value Measurements*Assets and Liabilities Measured at Fair Value*

The following table sets forth the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2014 and December 31, 2013. The table excludes short-term investments, accounts receivable, accounts payable and accrued expenses for which fair values approximate their carrying amounts.

As of March 31, 2014	Level 1	Level 2	Level 3	Total
Assets				
Money market and mutual funds	\$ 95,787	\$	\$	\$ 95,787
Derivative financial instruments		3,597		3,597
Total	\$ 95,787	\$ 3,597	\$	\$ 99,384
Liabilities				
Derivative financial instruments	\$	\$ 6,506	\$	\$ 6,506
Total	\$	\$ 6,506	\$	\$ 6,506
As of December 31, 2013	Level 1	Level 2	Level 3	Total
Assets				
Money market and mutual funds	\$ 116,662	\$	\$	\$ 116,662
Derivative financial instruments		957		957

Total	\$ 116,662	\$ 957	\$	\$ 117,619
Liabilities				
Derivative financial instruments		\$ 13,295		\$ 13,295
Total	\$	\$ 13,295	\$	\$ 13,295

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

7. Derivatives and Hedge Accounting

The Company uses derivative instruments and hedging transactions to mitigate exposure to foreign currency fluctuation risks associated with forecasted transactions denominated in certain foreign currencies and to minimize earnings and cash flow volatility associated with changes in foreign currency exchange rates. The Company's derivative financial instruments are largely forward foreign exchange contracts that are designated effective and that qualify as cash flow hedges under ASC topic 815, *Derivatives and Hedging* (ASC No. 815). The Company also uses derivatives consisting of foreign currency exchange contracts not designated as hedging instruments under ASC No. 815 to hedge intercompany balances and other monetary assets or liabilities denominated in currencies other than the functional currencies of various subsidiaries of the Company (fair value hedges). The Company's primary exchange rate exposure is with the Indian Rupee, the U.K. pound sterling and the Philippine peso. The Company also has exposure in Czech koruna and other local currencies in which it operates.

The Company had outstanding foreign exchange contracts totaling \$258,056 and GBP 14,456 as of March 31, 2014 and totaling \$262,085 and GBP 10,973 as of December 31, 2013. The Company estimates that approximately \$2,758 of net derivative losses included in accumulated other comprehensive loss (AOCI) could be reclassified into earnings within the next twelve months based on exchange rates prevailing as of March 31, 2014. As of March 31, 2014, the maximum outstanding term of derivative instruments that hedge forecasted transactions was forty-five months.

Table of Contents**EXLSERVICE HOLDINGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****March 31, 2014****(Unaudited)****(In thousands, except share and per share amounts)**

The Company evaluates the hedge effectiveness at the time a contract is entered into as well as on an ongoing basis. If during this time a contract is deemed ineffective, the change in the fair value is recorded in the unaudited consolidated statements of income and is included in foreign exchange gain or loss. For hedging positions that are discontinued because the forecasted transaction is not expected to occur by the end of the originally specified period, any related derivative amounts recorded in equity are reclassified to earnings. No such significant amounts of gains or losses were reclassified from AOCI into earnings during the three months ended March 31, 2014 and 2013.

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

Derivatives designated as hedging instruments:

	March 31, 2014	December 31, 2013
Other current assets:		
Foreign currency exchange contracts	\$ 1,412	\$ 437
Other assets:		
Foreign currency exchange contracts	\$ 1,923	\$ 423
Accrued expenses and other current liabilities:		
Foreign currency exchange contracts	\$ 4,170	\$ 7,689
Other non-current liabilities:		
Foreign currency exchange contracts	\$ 2,336	\$ 5,606

Derivatives not designated as hedging instruments:

	March 31, 2014	December 31, 2013
Other current assets:		
Foreign currency exchange contracts	\$ 262	\$ 97

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EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014

(Unaudited)

(In thousands, except share and per share amounts)

The following tables set forth the effect of foreign currency exchange contracts on the unaudited consolidated statements of income for the three months ended March 31, 2014 and 2013:

Derivatives in Cash Flow	Amount of Gain/(Loss) Recognized in AOCI on Derivative (Effective Portion)	Amount of Gain/(Loss) Recognized in AOCI on Derivative (Effective Portion)	Location of Gain/(Loss) Reclassified from AOCI into Income	Amount of Gain/(Loss) Reclassified from AOCI into Income		Excluded from Effectiveness Testing	Amount of Gain/(Loss) Recognized in Income on Derivatives	
				2014	2013		2014	2013
Foreign exchange contracts	\$ 7,010	\$ 2,073	Foreign exchange loss	\$ (2,254)	\$ (1,354)	Foreign exchange loss	\$	\$
Derivatives not designated as Hedging Instruments			Location of Gain or (Loss) Recognized in Income on Derivatives			Amount of Gain/(Loss) Recognized in Income on Derivatives	2014	2013
Foreign exchange contracts			Foreign exchange loss				\$ 2,714	\$ 2,298

8. Fixed Assets

Fixed assets consist of the following:

	March 31, 2014	December 31, 2013
Owned Assets:		
Network equipment, computers and software	\$ 74,670	\$ 63,428
Buildings	1,327	1,287
Land	868	842
Leasehold improvements	25,045	24,382
Office furniture and equipment	11,750	11,111
Motor vehicles	509	507
Capital work in progress	4,080	715
	118,249	102,272
Less: Accumulated depreciation and amortization	(75,680)	(69,242)
	\$ 42,569	\$ 33,030
Assets under capital leases:		
Network equipment, computers and software	\$ 114	\$ 184
Leasehold improvements	2,014	1,955
Office furniture and equipment	1,112	1,079
Motor vehicles	995	934
	4,235	4,152
Less: Accumulated depreciation and amortization	(2,773)	(2,618)
	\$ 1,462	\$ 1,534
Fixed assets, net	\$ 44,031	\$ 34,564

Depreciation and amortization expense excluding amortization of acquisition-related intangibles for the three months ended March 31, 2014 and 2013 was \$4,820 and \$4,878, respectively.

Table of Contents**EXLSERVICE HOLDINGS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****March 31, 2014****(Unaudited)****(In thousands, except share and per share amounts)**

Capital work in progress represents advances paid toward acquisitions of fixed assets and the cost of fixed assets not yet ready to be placed in service.

9. Capital Structure

The Company has one class of common stock outstanding.

During the three months ended March 31, 2014 and March 31, 2013, the Company acquired 18,256 and 13,018 shares of common stock, respectively, from employees in connection with withholding tax payments related to the vesting of restricted stock for a total consideration of \$459 and \$389, respectively. The weighted average purchase price of \$25.14 and \$29.89, respectively, was the average of the high and low price of the Company's common stock on the Nasdaq Global Select Market on the trading day prior to the vesting date of the shares of restricted stock. The shares acquired are held as treasury stock.

10. Employee Benefit Plans

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

Net gratuity cost includes the following components:

	Three months ended March 31,	
	2014	2013
Service cost	\$ 378	\$ 308
Interest cost	139	121
Expected return on plan assets	(43)	(45)
Actuarial loss	37	38
Net gratuity cost	\$ 511	\$ 422

The Gratuity Plans in India are partially funded and are managed and administered by Life Insurance Corporation of India and HDFC Standard Life Insurance Company. These entities calculate the annual contribution required to be made by the Company and manage the Gratuity Plans, including any required payouts. Fund managers manage these funds on a cash accumulation basis and declare interest retrospectively on March 31 of each year. The Company estimate a return of approximately 9.0% on these Gratuity Plans for the year ended March 31, 2014.

Change in Plan Assets	
Plan assets at January 1, 2014	\$ 2,156
Actual return	48
Effect of exchange rate changes	68
 Plan assets at March 31, 2014	 \$ 2,272

The Company maintains the ExlService.com LLC 401(k) Plan under Section 401(k) of the Internal Revenue Code of 1986, covering all eligible employees, as defined. The Company may make discretionary contributions of up to a maximum of 3% of employee compensation within certain limits. The Company has made provisions for contributions to the 401(k) Plan amounting to \$503 and \$619 during the three month periods ended March 31, 2014 and March 31, 2013, respectively, under the plans as applicable for these years.

During the three month periods ended March 31, 2014 and 2013, the Company contributed the following amounts to various defined contribution plans on behalf of its employees in India, the Philippines, Romania, Bulgaria, Malaysia and the Czech Republic:

Three months ended March 31, 2014	\$ 1,398
Three months ended March 31, 2013	\$ 1,447

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EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014

(Unaudited)

(In thousands, except share and per share amounts)

11. Leases

The Company finances its use of certain computer hardware, leasehold improvements, furniture, fixtures, office equipment and motor vehicles under various lease arrangements provided by financial institutions. Future minimum lease payments under these capital leases as of March 31, 2014 are as follows:

Year ending March 31,
2015