ExlService Holdings, Inc.
Form 10-Q
October 26, 2017

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER 001-33089

EXLSERVICE HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	82-0572194
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
280 PARK AVENUE, 38 TH FLOOR, NEW YORK, NEW YORK	10017
(Address of principal executive offices)	(Zip code)

(212) 277-7100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

As of October 24, 2017, there were 33,942,974 shares of the registrant's common stock outstanding, par value $0.001 per share.

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

	As of September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$87,665	$213,155
Short-term investments	161,702	13,491
Restricted cash	1,913	3,846
Accounts receivable, net	133,862	113,067
Prepaid expenses	6,958	7,855
Advance income tax, net	8,821	6,242
Other current assets	22,333	21,168
Total current assets	423,254	378,824
Property, plant and equipment, net	63,729	49,029
Restricted cash	3,710	3,393
Deferred taxes, net	16,118	14,799
Intangible assets, net	43,568	53,770
Goodwill	187,953	186,770
Other assets	30,672	19,943
Total assets	$769,004	$706,528
Liabilities and Equity		
Current liabilities:		
Accounts payable	$3,834	$3,288
Short-term borrowings	—	10,000
Deferred revenue	8,662	16,615
Accrued employee cost	49,385	50,832
Accrued expenses and other current liabilities	49,040	43,264
Current portion of capital lease obligations	168	232
Total current liabilities	111,089	124,231
Long term borrowings	45,000	35,000
Capital lease obligations, less current portion	315	300
Non-current liabilities	16,234	14,819
Total liabilities	172,638	174,350
Commitments and contingencies (See Note 21)		
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, 36,525,692 shares issued and 33,804,962 shares outstanding as of September 30, 2017 and 35,699,819 shares issued and 33,628,109 shares outstanding as of December 31, 2016	37	36
Additional paid-in capital	311,691	284,646
Retained earnings	436,419	382,722
Accumulated other comprehensive loss	(59,290)	(75,057)

Total including shares held in treasury	688,857	592,347
Less: 2,720,730 shares as of September 30, 2017 and 2,071,710 shares as of December 31, 2016, held in treasury, at cost	(92,698)	(60,362)
Stockholders' equity	$596,159	$531,985
Non-controlling interest	207	193
Total equity	$596,366	$532,178
Total liabilities and equity	$769,004	$706,528

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues, net	$192,345	$171,200	$564,435	$508,714
Cost of revenues (exclusive of depreciation and amortization)	124,890	111,767	370,458	332,172
Gross profit	67,455	59,433	193,977	176,542
Operating expenses:				
General and administrative expenses	26,870	21,854	75,809	63,620
Selling and marketing expenses	12,222	11,623	38,711	37,875
Depreciation and amortization	9,708	8,597	28,771	25,000
Total operating expenses	48,800	42,074	143,291	126,495
Income from operations	18,655	17,359	50,686	50,047
Foreign exchange gain, net	2,801	1,741	7,267	3,573
Interest expense	(482)	(295)	(1,379)	(1,023)
Other income, net	2,922	2,891	8,871	12,197
Income before income tax expense	23,896	21,696	65,445	64,794
Income tax expense	2,819	5,646	7,202	18,549
Net income	$21,077	$16,050	$58,243	$46,245
Earnings per share:				
Basic	$0.62	$0.48	$1.72	$1.38
Diluted	$0.60	$0.46	$1.66	$1.34
Weighted-average number of shares used in computing earnings per share:				
Basic	33,838,374	33,624,401	33,834,392	33,542,258
Diluted	35,043,987	34,675,485	35,048,672	34,512,815

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net income	$21,077	$16,050	$58,243	$46,245
Other comprehensive income:				
Unrealized (loss)/gain on effective cash flow hedges, net of taxes ($162), $1,067, $2,874 and $1,094, respectively	(557)	2,540	5,900	3,066
Foreign currency translation adjustment	(3,030)	1,716	10,813	(2,652)
Retirement benefits, net of taxes nil, $4, nil and $24, respectively	—	104	—	409
Reclassification adjustments				
Realized gain on cash flow hedges, net of taxes ($129), ($205), ($476) and ($386), respectively[1]	(294)	(261)	(1,081)	(486)
Retirement benefits, net of taxes $30, $1, $77 and $3, respectively[2]	42	22	135	64
Total other comprehensive income/(loss)	$(3,839)	$4,121	$15,767	$401
Total comprehensive income	$17,238	$20,171	$74,010	$46,646

(1) These are reclassified to net income and are included in the foreign exchange gain in the unaudited consolidated statements of income. See Note 13 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 16 to the unaudited consolidated financial statements.

See accompanying notes to unaudited consolidated financial statements.

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

	Nine months ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$58,243	$46,245
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,771	25,000
Stock-based compensation expense	16,771	14,743
Unrealized gain on short term investments	(4,437)	(4,955)
Change in fair value of earn-out consideration	—	(4,060)
Unrealized foreign exchange loss/(gain)	446	(147)
Deferred income tax (benefit)/expense	(5,417)	4,424
Allowances for doubtful accounts	2,706	37
Others, net	12	(84)
Change in operating assets and liabilities:		
Restricted cash	1,757	(464)
Accounts receivable	(22,064)	(16,559)
Prepaid expenses and other current assets	5,194	(587)
Accounts payable	371	(2,518)
Deferred revenue	(8,155)	(1,485)
Accrued employee costs	(915)	(3,812)
Accrued expenses and other liabilities	267	5,688
Advance income tax, net	(2,607)	(4,748)
Other assets	1,241	(676)
Net cash provided by operating activities	72,184	56,042
Cash flows from investing activities:		
Purchase of property, plant and equipment	(26,759)	(20,335)
Business acquisition (net of cash acquired)	(724)	(9,427)
Purchase of investments	(197,897)	(155,709)
Proceeds from redemption of investments	54,238	59,229
Net cash used for investing activities	(171,142)	(126,242)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(133)	(292)
Repayments of borrowings	—	(25,000)
Acquisition of treasury stock	(32,336)	(15,169)
Proceeds from exercise of stock options	4,275	6,226
Net cash used for financing activities	(28,194)	(34,235)
Effect of exchange rate changes on cash and cash equivalents	1,662	(2,514)
Net decrease in cash and cash equivalents	(125,490)	(106,949)
Cash and cash equivalents, beginning of period	213,155	205,323
Cash and cash equivalents, end of period	$87,665	$98,374

See accompanying notes to unaudited consolidated financial statements.

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EXLSERVICE HOLDINGS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017
(In thousands, except share and per share amounts)

1. Organization

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

2. Summary of Significant Accounting Policies

(a) Basis of Preparation and Principles of Consolidation

The unaudited interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("US GAAP") for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by US GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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.

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

(b) Use of Estimates

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

(c) Share-Based Compensation

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718). ASU No. 2016-09 identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain

classifications on the Statement of Cash Flows. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The Company adopted this ASU effective January 1, 2017. The following summarizes the effects of the adoption on the Company's unaudited consolidated financial statements:

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EXLSERVICE HOLDINGS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(continued)
September 30, 2017
(In thousands, except share and per share amounts)

Income taxes - Upon adoption of this standard, all excess tax benefits and tax deficiencies are recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards are treated as discrete items in the reporting period in which they occur. The Company also recognizes excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. As a result, the Company recognized discrete adjustments to income tax expense for the three months ended September 30, 2017 in the amount of $3,488 and for the nine months ended September 30, 2017 in the amount of $7,169 related to excess tax benefits. No adjustment is recorded for any windfall benefits previously recorded in Additional Paid-In Capital.

Forfeitures - Prior to adoption, share-based compensation expense was recognized on a straight line basis, net of estimated forfeitures, such that expense was recognized only for share-based awards that are expected to vest. A forfeiture rate was estimated annually and revised, if necessary, in subsequent periods if actual forfeitures differed from initial estimates. Upon adoption, the Company will no longer apply a forfeiture rate and instead will account for forfeitures as they occur. The Company has applied the modified retrospective adoption approach as of January 1, 2017 and has recognized a cumulative-effect adjustment to reduce additional paid-in-capital of $5,999 and retained earnings of $4,546 (net of deferred tax effect of $1,453).

Statements of Cash Flows - The Company historically accounted for excess tax benefits on the Statement of Cash Flows as a financing activity. Upon adoption of this standard, excess tax benefits are classified along with other income tax cash flows as an operating activity. The Company has elected to adopt this portion of the standard on a prospective basis beginning in 2017 and accordingly prior periods have not been adjusted.
Earnings Per Share - The Company uses the treasury stock method to compute diluted earnings per share, unless the effect would be anti-dilutive. The Company excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of diluted earnings per share.

(d) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, “Revenue from Contracts with Customers”. This standard update along with subsequently issued updates, clarifies the principles for recognizing revenue and develops a common revenue standard for United States generally accepted accounting principles (GAAP) and is effective for reporting periods beginning after December 15, 2017. The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services ("performance obligations") are transferred to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services ("transaction price"). Adoption of the new rules could impact the timing of revenue recognition for certain contracts. ASU 2014-09 is effective for the Company in the first quarter of fiscal 2018 using either one of two methods: (i) retrospectively to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09 (modified retrospective method).

The Company is evaluating the impact of the new standard. The ultimate impact on revenue resulting from the application of the new standard will be subject to assessments that are dependent on many variables, including, but not limited to, the terms of the contractual arrangements and the mix of business. Upon adoption, the Company expect that variable consideration when present in a revenue arrangements will need to be estimated based on its achievability and recognized over the contractual period as compared to recognizing such revenue as the services are

performed. The Company also expects a change in the manner that it recognizes certain incremental and fulfillment costs from expensing them as incurred to deferring and recognizing them over the contractual period.

The Company intends to adopt the new standard, effective January 1, 2018, using the modified retrospective method. The Company's considerations include, but are not limited to, the comparability of its financial statements and the comparability within its industry from application of the new standard to its contractual arrangements. The Company has established an implementation team to implement the standard update related to the recognition of revenue from contracts with customers and continues to evaluate the changes to accounting system and processes, and additional disclosure requirements that may be necessary.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net). ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires the identification of arrangements that should be accounted for as leases by lessees. In general, for lease arrangements exceeding a twelve month term, these arrangements must now be recognized as assets and liabilities on the balance sheet of the lessee. Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption of ASU 2016-02 must be calculated using the applicable incremental borrowing rate at the date of adoption. In addition, ASU 2016-02 requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements and the implementation approach to be used.

In June 2016, FASB issued ASU 2016-13, Financial Instruments - Credit Losses, which require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is to be deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The amendment should be applied through a modified retrospective approach. Early adoption as of the fiscal years beginning after December 15, 2018 is permitted. The adoption of ASU 2016-13 is not expected to have a material effect on the Company's consolidated financial statements.

In August 2016, FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The amendments apply to all entities that are required to present a Statement of Cash Flows under Topic 230. The amendments are an improvement to GAAP because they provide guidance for each of eight issues identified therein, thereby reducing the current and potential future diversity in practice. The amendments are effective for fiscal years beginning after December 15, 2017 and interim periods within those annual periods and should be applied using a retrospective transition method to each period presented. The Company does not expect the adoption of this ASU to have a material effect on its financial position or results of operations.

In November 2016, FASB issued ASU 2016-18, Statement of Cash Flows - Restricted cash. The amendments apply to all entities that have restricted cash or restricted cash equivalents and are required to present a Statement of Cash Flows under Topic 230. The amendments in this update require that a Statement of Cash Flows should explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments are effective for fiscal years beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted with an adjustment reflected as of the beginning of the fiscal year in which the amendment is adoption. The Company does not expect the adoption of this

ASU to have a material effect on its financial position or results of operations.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment (Topic 350), which eliminates Step 2 from the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017 and should be applied prospectively. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In March, 2017, FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost. The ASU amends ASC 715, Compensation — Retirement Benefits, to require employers that present a measure of operating income in their statement of income to include only the service cost component of net periodic pension cost and net periodic post-retirement benefit cost in operating expenses (together with other employee compensation costs). The

other components of net benefit cost, including amortization of prior service cost/credit, and settlement and curtailment effects, are to be included in non-operating expenses. The update also stipulates that only the service cost component of net benefit cost is eligible for capitalization. The amendments are effective for fiscal years beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

In May 2017, FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. Modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the change in terms or conditions. The amendments in this ASU are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

In August 2017, FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in their financial statements. The amendments are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption being permitted. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated financial statements.

3. Segment and Geographical Information

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

In prior periods the Company presented two reportable segments: Operations Management (which included its Insurance, Healthcare, Travel, Transportation and Logistics, Finance and Accounting, Banking and Financial services, Utilities and Consulting operating segments) and Analytics. Effective for the quarter and year ended December 31, 2016, the Company presents information for the following reportable segments:

• Insurance

• Healthcare
• Travel, Transportation and Logistics (“TT&L”)
• Finance and Accounting (“F&A”), and
• Analytics

The remaining operating segments, which includes the banking and financial services, utilities and consulting operating segments have been included in a category called “All Other”. Segment information for all prior periods presented herein has been changed to conform to the current presentation. This change in segment presentation does not affect the Company's unaudited consolidated statements of income and comprehensive income, balance sheets or statements of cash flows.

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EXLSERVICE HOLDINGS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(continued)
September 30, 2017
(In thousands, except share and per share amounts)

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

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

Revenues and cost of revenues for the three months ended September 30, 2017 and 2016, respectively, for each of the reportable segments, are as follows:

	Three months ended September 30, 2017						
	Insurance	Healthcare	TT&L	F&A	All Other	Analytics	Total
Revenues, net	$59,608	$ 18,871	$18,496	$21,642	$19,984	$ 53,744	$192,345
Cost of revenues (exclusive of depreciation and amortization)	39,699	11,966	10,135	13,310	13,629	36,151	124,890
Gross profit	$19,909	$ 6,905	$8,361	$8,332	$6,355	$ 17,593	$67,455
Operating expenses							48,800
Foreign exchange gain, interest expense and other income, net							5,241
Income tax expense							2,819
Net income							$21,077

	Three months ended September 30, 2016						
	Insurance	Healthcare	TT&L	F&A	All Other	Analytics	Total
Revenues, net	$52,801	$ 15,959	$17,519	$19,858	$23,426	$ 41,637	$171,200
Cost of revenues (exclusive of depreciation and amortization)	37,797	10,887	10,637	12,012	14,655	25,779	111,767
Gross profit	$15,004	$ 5,072	$6,882	$7,846	$8,771	$ 15,858	$59,433
Operating expenses							42,074
Foreign exchange gain, interest expense and other income, net							4,337
Income tax expense							5,646
Net income							$16,050

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EXLSERVICE HOLDINGS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(continued)
September 30, 2017
(In thousands, except share and per share amounts)

Revenues and cost of revenues for the nine months ended September 30, 2017 and 2016, respectively, for each of the reportable segments, are as follows:

	Nine months ended September 30, 2017						
	Insurance	Healthcare	TT&L	F&A	All Other	Analytics	Total
Revenues, net	$173,784	$ 56,726	$53,374	$63,694	$62,547	$154,310	$564,435
Cost of revenues (exclusive of depreciation and amortization)	119,004	36,402	30,832	39,163	42,770	102,287	370,458
Gross profit	$54,780	$ 20,324	$22,542	$24,531	$19,777	$52,023	$193,977
Operating expenses							143,291
Foreign exchange gain, interest expense and other income, net							14,759
Income tax expense							7,202
Net income							$58,243

	Nine months ended September 30, 2016						
	Insurance	Healthcare	TT&L	F&A	All Other	Analytics	Total
Revenues, net	$151,696	$ 49,788	$52,623	$58,961	$75,434	$120,212	$508,714
Cost of revenues (exclusive of depreciation and amortization)	108,516	32,440	31,901	35,385	47,836	76,094	332,172
Gross profit	$43,180	$ 17,348	$20,722	$23,576	$27,598	$44,118	$176,542
Operating expenses							126,495
Foreign exchange gain, interest expense and other income, net							14,747
Income tax expense							18,549
Net income							$46,245

Net revenues of the Company by service type, were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
BPM and related services [(1)]	$138,601	$129,563	$410,125	$388,502
Analytics services	53,744	41,637	154,310	120,212
Total	$192,345	$171,200	$564,435	$508,714

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues, net				
United States	$158,501	$137,047	$462,676	$407,272
Non-United States				
United Kingdom	26,824	27,993	81,857	84,284
Rest of World	7,020	6,160	19,902	17,158
Total Non-United States	33,844	34,153	101,759	101,442
	$192,345	$171,200	$564,435	$508,714

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

	As of September 30, 2017	December 31, 2016
Property, plant and equipment, net		
India	$37,139	$ 23,362
United States	14,829	10,809
Philippines	9,031	11,900
Rest of World	2,730	2,958
	$63,729	$ 49,029

4. Earnings Per Share

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Numerators:				
Net income	$21,077	$ 16,050	$58,243	$ 46,245
Denominators:				
Basic weighted average common shares outstanding	33,838,373	33,624,401	33,834,392	33,542,258
Dilutive effect of share based awards	1,205,613	1,051,084	1,214,280	970,557
Diluted weighted average common shares outstanding	35,043,987	34,675,485	35,048,672	34,512,815
Earnings per share:				
Basic	$0.62	$ 0.48	$1.72	$ 1.38
Diluted	$0.60	$ 0.46	$1.66	$ 1.34
Weighted average common shares considered anti-dilutive in computing diluted earnings per share	—	32,516	151,961	97,574

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5. Other Income, net
Other income, net consists of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Interest and dividend income	$322	$354	$1,317	$1,208
Gain on mutual fund investments	2,556	2,562	6,777	6,191
Change in fair value of earn-out consideration	—	—	—	4,060
Other, net	44	(25)	777	738
Other income, net	$2,922	$2,891	$8,871	$12,197

6. Property, Plant and Equipment
Property, Plant and Equipment consist of the following:

	Estimated useful lives (Years)	As of September 30, 2017	December 31, 2016
Owned Assets:			
Network equipment and computers	3-5	$73,728	$65,381
Software	3-5	56,369	44,617
Leasehold improvements	3-8	36,741	31,192
Office furniture and equipment	3-8	18,397	15,426
Motor vehicles	2-5	645	580
Buildings	30	1,218	1,171
Land	—	797	766
Capital work in progress	—	9,624	4,964
		197,519	164,097
Less: Accumulated depreciation and amortization		(134,245)	(115,568)
		$63,274	$48,529
Assets under capital leases:			
Leasehold improvements		$889	$854
Office furniture and equipment		138	133
Motor vehicles		644	810
		1,671	1,797
Less: Accumulated depreciation and amortization		(1,216)	(1,297)
		$455	$500
Property, Plant and Equipment, net		$63,729	$49,029

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

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The depreciation and amortization expense excluding amortization of acquisition-related intangibles was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Depreciation and amortization expense	$6,221	$5,749	$18,279	$16,719

Software - Internally developed:

	As of September 30, 2017	December 31, 2016
Cost	$2,364	$ 2,242
Less : Accumulated amortization expense	791	336
	$1,573	$ 1,906

7. Goodwill and Intangible Assets

Goodwill

The following table sets forth details of the Company’s goodwill balance as of September 30, 2017:

	Insurance	Healthcare	TT&L	F&A	All Other	Analytics	Total
Balance as at January 1, 2016	$35,824	$ 19,276	$13,278	$47,891	$5,326	$49,940	$171,535
Acquisitions	2,510	—	—	—	—	13,598	16,108
Currency translation adjustments	(224)	—	(295)	(354)	—	—	(873)
Balance as at December 31, 2016	$38,110	$ 19,276	$12,983	$47,537	$5,326	$63,538	$186,770
Currency translation adjustments	204	—	445	534	—	—	1,183
Balance as at September 30, 2017	$38,314	$ 19,276	$13,428	$48,071	$5,326	$63,538	$187,953

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

	As of September 30, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:			
Customer relationships	$75,372	$ (40,975)	$ 34,397
Leasehold benefits	2,826	(2,490)	336
Developed technology	14,314	(8,177)	6,137
Non-compete agreements	2,045	(1,739)	306
Trade names and trademarks	5,379	(3,887)	1,492
	$99,936	$ (57,268)	$ 42,668
Indefinite-lived intangible assets:			
Trade names and trademarks	$900	$ —	$ 900
Total intangible assets	$100,836	$ (57,268)	$ 43,568

	As of December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:			
Customer relationships	$75,181	$ (32,968)	$ 42,213
Leasehold benefits	2,715	(2,247)	468
Developed technology	14,186	(6,468)	7,718
Non-compete agreements	2,045	(1,612)	433
Trade names and trademarks	5,360	(3,322)	2,038
	$99,487	$ (46,617)	$ 52,870
Indefinite-lived intangible assets:			
Trade names and trademarks	$900	$ —	$ 900
Total intangible assets	$100,387	$ (46,617)	$ 53,770

The amortization expenses is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Amortization expense	$3,487	$2,848	$10,492	$8,281

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

	(in years)
Customer relationships	5.15
Leasehold benefits	1.67
Developed technologies	3.77
Non-compete agreements	1.93
Trade names and trademarks (Finite lived)	5.23

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Estimated amortization of intangible assets during the next twelve months ending September 30,	
2018	$12,667
2019	11,947
2020	5,705
2021	3,207
2022	2,461
2023 and thereafter	6,681
Total	$42,668

8. Other current assets

Other current assets consists of the following:

	As of September 30, 2017	December 31, 2016
Derivative instruments	$8,236	$ 3,324
Advances to suppliers	3,681	1,091
Receivables from statutory authorities	5,784	11,870
Others	4,632	4,883
Other current assets	$22,333	$ 21,168

9. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consists of the following:

	As of September 30, 2017	December 31, 2016
Accrued expenses	$39,250	$ 30,690
Derivative instruments	1,330	1,430
Client liability account	2,090	4,005
Others	6,370	7,139
Accrued expenses and other current liabilities	$49,040	$ 43,264

10. Non-current liabilities

Non-current liabilities consists of the following:

	As of September 30, 2017	December 31, 2016
Derivative instruments	$1,553	$ 828
Unrecognized tax benefits	692	3,640
Deferred rent	7,890	7,237
Retirement benefits	2,917	1,977
Others	3,182	1,137

Non-current liabilities	$16,234	$14,819

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11. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists of amortization of actuarial gain / (loss) on retirement benefits and changes in the cumulative foreign currency translation adjustments. In addition, the Company enters into foreign currency exchange contracts, which are designated as cash flow hedges in accordance with ASC topic 815 “Derivatives and Hedging” (“ASC No. 815”). Changes in the fair values of contracts that are deemed effective are recorded as a component of accumulated other comprehensive loss until the settlement of those contracts. The balances as of September 30, 2017 and December 31, 2016 are as follows:

	As of September 30, 2017	December 31, 2016
Cumulative currency translation adjustments	$(66,486)	$(77,299)
Unrealized gain on cash flow hedges, net of taxes of $3,605 and $1,207	7,559	2,740
Retirement benefits, net of taxes of ($265) and ($342)	(363)	(498)
Accumulated other comprehensive loss	$(59,290)	$(75,057)

12. Fair Value Measurements

Assets and Liabilities Measured at Fair Value

The following table sets forth the Company’s assets and liabilities that were accounted for at fair value as of September 30, 2017 and December 31, 2016. The table excludes accounts receivable, accounts payable and accrued expenses for which fair values approximate their carrying amounts.

As of September 30, 2017	Level 1	Level 2	Level 3	Total
Assets				
Money market and mutual funds*	$146,477	$—	$—	$146,477
Derivative financial instruments	—	14,395	—	14,395
Total	$146,477	$14,395	$—	$160,872
Liabilities				
Derivative financial instruments	$—	$2,883	$—	$2,883
Total	$—	$2,883	$—	$2,883

As of December 31, 2016	Level 1	Level 2	Level 3	Total
Assets				
Money market and mutual funds	$—	$—	$—	$—
Derivative financial instruments	—	6,318	—	6,318
Total	$—	$6,318	$—	$6,318
Liabilities				
Derivative financial instruments	$—	$2,258	$—	$2,258
Total	$—	$2,258	$—	$2,258

* Represents short-term investments carried on fair value option under ASC 825 “Financial Instruments” as of September 30, 2017.

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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 13 to the unaudited consolidated financial statements contained herein for further details on Derivatives and Hedge Accounting.

13. 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 foreign exchange forward contracts that are designated effective and that qualify as cash flow hedges under ASC 815. The Company had outstanding cash flow hedges totaling $297,643 (including $1,500 of range forward contracts) as of September 30, 2017 and $218,545 as of December 31, 2016. The fair value of these cash flow hedges is included in the other comprehensive loss on the Company's unaudited consolidated balance sheet.

The Company also enters into foreign currency forward contracts to economically hedge its intercompany balances and other monetary assets and liabilities denominated in currencies other than functional currencies. These derivatives do not qualify as fair value hedges under ASC 815. Changes in the fair value of these derivatives are recognized in the unaudited consolidated statements of income and are included in foreign exchange gain/loss. The Company's primary exchange rate exposure is with the Indian Rupee, the U.K. Pound sterling and the Philippine peso. The Company also has exposure to Colombian pesos, Czech Koruna, Euro, South African Rand and other local currencies in which it operates. Outstanding foreign currency forward contracts amounted to $91,523 and GBP 17,244 as of September 30, 2017 and amounted to $63,980 and GBP 17,974 as of December 31, 2016.

The Company estimates that approximately $6,839 of net derivative gains included in accumulated other comprehensive loss ("AOCL") could be reclassified into earnings within the next twelve months based on exchange rates prevailing as of September 30, 2017. At September 30, 2017, the maximum outstanding term of the cash flow hedges was forty-five months.

The Company evaluates 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/(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. There were no such significant amounts of gains or losses that were reclassified from AOCL into earnings during the three and nine months ended September 30, 2017 and 2016.

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:

	As of September 30, 2017	December 31, 2016
Other current assets:		
Foreign currency exchange contracts	$8,122	$ 3,211
Other assets:		
Foreign currency exchange contracts	$6,159	$ 2,994
Accrued expenses and other current liabilities:		
Foreign currency exchange contracts	$1,283	$ 1,430

Non-current liabilities:		
Foreign currency exchange contracts	$1,553	$ 828

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Derivatives not designated as hedging instruments:

	As of September 30, 2017	December 31, 2016
Other current assets:		
Foreign currency exchange contracts	$114	$ 113
Accrued expenses and other current liabilities:		
Foreign currency exchange contracts	$47	$ —

The following tables set forth the effect of foreign currency exchange contracts on the unaudited consolidated statements of income for the three and nine months ended September 30, 2017 and 2016:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Derivatives in Cash flow hedging relationship				
Gain/(loss) recognized in AOCL on derivative - Effective portion	$(719)	$3,607	$8,774	$4,160
Gain/(loss) reclassified from AOCL to foreign exchange gain/(loss) - Effective portion	$423	$466	$1,557	$872
Gain/(loss) recognized in foreign exchange gain/(loss) - Ineffective portion	$—	$—	$—	$—
Derivatives not designated as hedging instruments				
Gain/(loss) recognized in foreign exchange gain/(loss)	$(678)	$1,382	$2,095	$4,110

14. Borrowings

The Company has a revolving credit facility (the “Credit Facility”), including a letter of credit sub-facility, in the amount of $100,000. The Credit Facility has a maturity date of October 24, 2019 and is voluntarily pre-payable from time to time without premium or penalty.

Borrowings under the Credit Facility may be used for working capital, general corporate purposes and for acquisitions. The amount outstanding as of September 30, 2017 is $45,000 which is included under “long-term borrowings” in the unaudited consolidated balance sheets. The Credit Facility carried an effective interest rate of 2.9% per annum and 2.2% per annum, during the three months ended September 30, 2017 and 2016, respectively, and for the nine months ended September 30, 2017 and 2016 it was 2.7% per annum and 2.0% per annum, respectively.

In connection with the financing, the Company incurred certain debt issuance costs, which are deferred and amortized as an adjustment to interest expense over the term of the Credit Facility. The unamortized debt issuance costs as of September 30, 2017 and December 31, 2016 was $200 and $272, respectively, and is included under “other current assets” and “other assets” in the unaudited consolidated balance sheets.

The Credit Facility is guaranteed by the Company's domestic subsidiaries and material foreign subsidiaries and is secured by all or substantially all of the assets of the Company and its material domestic subsidiaries. The Credit Agreement governing the Credit Facility contains certain covenants including a restriction on our indebtedness, and a covenant to not permit the interest coverage ratio (the ratio of EBIT to cash interest expense) to be less than 3.5 to 1.0 or the leverage ratio (total funded indebtedness to EBITDA) to be greater than 2.5 to 1.0, for the four consecutive quarter period ending on the last day of each fiscal quarter. As of September 30, 2017, the Company was in compliance with the financial covenants listed above.

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15. Capital Structure

Common Stock

The Company has one class of common stock outstanding.

During the three months ended September 30, 2017 and 2016, the Company did not acquire any shares of common stock from employees in connection with withholding tax payments related to the vesting of restricted stock.

During the nine months ended September 30, 2017 and 2016, the Company acquired 65,003 and 16,027 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 $3,016 and $728, respectively. The weighted average purchase price per share of $46.40 and $45.44, respectively, was the average of the high and low price of the Company's share of common stock on the Nasdaq Global Select Market on the trading day prior to the vesting date of the shares of restricted stock.

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

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

During the three and nine months ended September 30, 2017, the Company purchased 160,033 and 584,017 shares of its common stock, respectively, for an aggregate purchase price of approximately $9,004 and $29,320, respectively, including commissions, representing an average purchase price per share of $56.26 and $50.20, respectively, under the 2014 and 2017 Repurchase Program.

During the three and nine months ended September 30, 2016, the Company purchased 108,143 and 302,953 shares of its common stock, respectively, for an aggregate purchase price of approximately $5,466 and $14,441, respectively, including commissions, representing an average purchase price per share of $50.54 and $47.67, respectively, under the 2014 Repurchase Program.

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

16. Employee Benefit Plans

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

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

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Net gratuity cost includes the following components:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Service cost	$491	$402	$1,469	$1,203
Interest cost	166	150	494	449
Expected return on plan assets	(112)	(104)	(330)	(312)
Amortization of actuarial loss	72	23	212	67
Net gratuity cost	$617	$471	$1,845	$1,407

The Gratuity Plan in India is partially funded and the Philippines plan is unfunded. The Company makes annual contributions to the employees' gratuity fund established with Life Insurance Corporation of India and HDFC Standard Life Insurance Company. They calculate the annual contribution required to be made by the Company and manage the Gratuity Plans, including any required payouts. Fund managers manage these funds on a cash accumulation basis and declare interest retrospectively on March 31 of each year. The Company earned a return of approximately 8.0% on these Gratuity Plans for the period ended September 30, 2017.

Change in Plan Assets	
Plan assets at January 1, 2017	$5,640
Actual return	341
Employer contribution	1,694
Benefits paid	(896)
Effect of exchange rate changes	227
Plan assets at September 30, 2017	$7,006

The Company maintains several 401(k) plans under Section 401(k) of the Internal Revenue Code of 1986 (the “Code”), covering all eligible employees, as defined in the Code as a defined contribution plan. The Company may make discretionary contributions of up to a maximum of 4% of employee compensation within certain limits. Contributions to the 401(k) plans amounting to $487 and $554 were made during the three months ended September 30, 2017 and 2016, respectively, and $2,051 and $1,945 during the nine months ended September 30, 2017 and 2016, respectively. During the three months ended September 30, 2017 and 2016, the Company contributed $1,845 and $1,608, respectively, and during the nine months ended September 30, 2017 and 2016, the Company contributed $5,350 and $4,619, respectively, for various defined contribution plans on behalf of its employees in India, the Philippines, Bulgaria, Romania, the Czech Republic, South Africa, Colombia, and Singapore.

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17. Leases

The Company finances its use of certain motor vehicles and other equipment under various lease arrangements provided by financial institutions. Future minimum lease payments under these capital leases as of September 30, 2017 are as follows:

During the next twelve months ending September 30,	
2018	$227
2019	173
2020	128
2021	72
Total minimum lease payments	600
Less: amount representing interest	117
Present value of minimum lease payments	483
Less: current portion	168
Long term capital lease obligation	$315

The Company conducts its operations using facilities leased under non-cancelable operating lease agreements that expire at various dates. Future minimum lease payments under non-cancelable agreements expiring after September 30, 2017 are set forth below:

During the next twelve months ending September 30,	
2018	$10,477
2019	8,470
2020	4,795
2021	3,189
2022	1,064
2023 and thereafter	933
	$28,928

Rent expense

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Rent expense	$6,362	$5,445	$18,168	$15,871

Deferred rent

	As of September 30, 2017	December 31, 2016
Cancelable and non - cancelable operating leases	$8,763	$ 7,915

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

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18. Income Taxes

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

The Company recorded income tax expense of $2,819 and $5,646 for the three months ended September 30, 2017 and 2016, respectively. The effective tax rate decreased from 26.0% during the three months ended September 30, 2016 to 11.8% as a result of (i) excess tax benefit related to stock awards of $3,488 pursuant to ASU No. 2016-09 during the three months ended September 30, 2017, (ii) higher earnings from foreign subsidiaries and lower domestic profit in the U.S., partially offset by higher tax expense on account of the expiration of a tax holiday for some of the operating centers in India.

The Company recorded income tax expense of $7,202 and $18,549 for the nine months ended September 30, 2017 and 2016, respectively. The effective tax rate decreased from 28.6% during the nine months ended September 30, 2016 to 11.0% as a result of (i) excess tax benefit related to stock awards of $7,169 pursuant to ASU No. 2016-09 during the nine months ended September 30, 2017, (ii) conclusion of an uncertain tax position of $3,153 (including interest of $1,433), (iii) higher earnings from foreign subsidiaries and lower domestic profit in the U.S., partially offset by higher tax expense on account of the expiration of a tax holiday for some of the operating centers in India.

The following table summarizes the activity related to the gross unrecognized tax benefits from January 1, 2017 through September 30, 2017:

Balance as of January 1, 2017	$3,087
Increases related to prior year tax positions	—
Decreases related to prior year tax positions	(1,720)
Increases related to current year tax positions	—
Decreases related to current year tax positions	—
Effect of exchange rate changes	85
Balance as of September 30, 2017	$1,452

The unrecognized tax benefits as of September 30, 2017 of $1,452, if recognized, would impact the effective tax rate. During the three months ended September 30, 2017 and 2016, the Company has recognized interest of nil and $50, respectively, which are included in the income tax expense in the unaudited consolidated statements of income. As of September 30, 2017 and December 31, 2016, the Company has accrued interest and penalties of $240 and $1,553, relating to unrecognized tax benefits.

19. Stock-Based Compensation

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Cost of revenue	$1,109	$795	$3,448	$2,848
General and administrative expenses	2,601	1,905	7,541	6,241
Selling and marketing expenses	1,998	1,784	5,782	5,654
Total	$5,708	$4,484	$16,771	$14,743

As of September 30, 2017, the Company had 1,492,097 shares available for grant under the 2015 Amendment and Restatement of the 2006 Omnibus Award Plan.

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EXLSERVICE HOLDINGS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(continued)
September 30, 2017
(In thousands, except share and per share amounts)

Stock Options

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

	Number of Options	Weighted Avg Exercise Price	Aggregate Intrinsic Value	Weighted Avg Remaining Contractual Life (Years)
Outstanding at December 31, 2016	811,902	$ 16.31	$ 27,718	2.96
Granted	—	—		
Exercised	(349,880)	12.22		
Forfeited	—	—		
Outstanding at September 30, 2017	462,022	$ 19.40	$ 17,980	2.97
Vested and exercisable at September 30, 2017	462,022	$ 19.40	$ 17,980	2.97

The unrecognized compensation cost for outstanding options as of September 30, 2017 is nil. The Company did not grant any options during the three and nine months ended September 30, 2017 and 2016. There were no options that vested during the three months ended September 30, 2017 and 2016. The total grant date fair value of options vested during the nine months ended September 30, 2017 and 2016 was nil and $706, respectively.

Restricted Stock and Restricted Stock Units

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

	Restricted Stock		Restricted Stock Units	
	Number	Weighted Avg Grant Date Fair Value	Number	Weighted Avg Grant Date Fair Value
Outstanding at December 31, 2016*	246,940	$ 42.42	1,256,288	$ 37.38
Granted	—	—	391,927	48.02
Vested	(36,767)	38.74	(449,977)	34.69
Forfeited	(4,505)	35.11	(96,140)	41.03
Outstanding at September 30, 2017*	205,668	$ 43.24	1,102,098	$ 41.94

* As of September 30, 2017 and December 31, 2016 restricted stock units vested for which the underlying common stock is yet to be issued are 146,112 and 135,054, respectively.

As of September 30, 2017, unrecognized compensation cost of $39,553 is expected to be expensed over a weighted average period of 2.66 years.

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EXLSERVICE HOLDINGS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(continued)
September 30, 2017
(In thousands, except share and per share amounts)

Performance Based Stock Awards
Performance restricted stock unit (the "PRSUs") activity under the Company's stock plans is shown below:

	Revenue Based PRSUs		Market Condition Based PRSUs	
	Number	Weighted Avg Grant Date Fair Value	Number	Weighted Avg Grant Date Fair Value
Outstanding at December 31, 2016	115,174	$ 41.70	215,171	$ 47.42
Granted	62,113	47.73	62,100	54.10
Vested	—	—	—	—
Forfeited	(8,595)	43.96	(8,595)	59.40
Outstanding at September 30, 2017	168,692	$ 43.81	268,676	$ 48.58

As of September 30, 2017, unrecognized compensation cost of $7,095 is expected to be expensed over a weighted average period of 1.83 years.

20. Related Party Disclosures
The Company provides consulting services to PharmaCord, LLC. One of the Company's directors, Nitin Sahney, is the member-manager and chief executive officer of PharmaCord, LLC. The Company recognized revenue of approximately $701 and $1,506 in the three months and nine months ended September 30, 2017, respectively, for services provided.
At September 30, 2017 and December 31, 2016, the Company had an account receivable of $379 and nil, respectively, related to these services.

21. Commitments and Contingencies
Fixed Asset Commitments
At September 30, 2017, the Company has committed to spend approximately $7,407 under agreements to purchase fixed assets. This amount is net of capital advances paid in respect of these purchases.
Other Commitments
Certain units of the Company's Indian subsidiaries were established as 100% Export-Oriented units or under the Software Technology Parks of India ("STPI") scheme promulgated by the Government of India. These units are exempt from customs, central excise duties, and levies on imported and indigenous capital goods, stores, and spares. The Company has undertaken to pay custom duties, service taxes, levies, and liquidated damages payable, if any, in respect of imported and indigenous capital goods, stores and spares consumed duty free, in the event that certain terms and conditions are not fulfilled. The Company's management believes, however, that these units have in the past satisfied and will continue to satisfy the required conditions.
The Company's operations centers in the Philippines are registered with the Philippine Economic Zone Authority ("PEZA"). The registration provides the Company with certain fiscal incentives on the import of capital goods and requires ExlService Philippines, Inc. to meet certain performance and investment criteria. The Company's management believes that these centers have in the past satisfied and will continue to satisfy the required criteria.
Contingencies
U.S. and Indian transfer pricing regulations require that any international transaction involving associated enterprises be at an arm's-length price. Accordingly, the Company determines the appropriate pricing for the international transactions among its associated enterprises on the basis of a detailed functional and economic analysis involving benchmarking against transactions among entities that are not under common control. The tax authorities have jurisdiction to review this arrangement and in the event that they determine that the transfer price applied was not

appropriate, the Company may incur increased tax liability, including accrued interest and penalties. The Company is currently involved in disputes with the Indian tax authorities over the application

of some of its transfer pricing policies for some of its subsidiaries. Further, the Company and a U.S. subsidiary are engaged in tax litigation with the income-tax authorities in India on the issue of permanent establishment.

The aggregate disputed amount demanded by Indian tax authorities from the Company primarily related to its transfer pricing issues for years ranging from tax years 2003 to 2014 and its permanent establishment issues ranging from tax years 2003 to 2007 as of September 30, 2017 and December 31, 2016 is $16,075 and $17,963, respectively, of which the Company has made payments or provided bank guarantee to the extent $8,418 and $8,640, respectively. Amounts paid as deposits in respect of such assessments aggregating to $6,389 and $6,690 as of September 30, 2017 and December 31, 2016, respectively, are included in “Other assets” and amounts deposited for bank guarantees aggregating to $2,029 and $1,950 as of September 30, 2017 and December 31, 2016, respectively, are included in “Restricted cash” in the non-current assets section of the Company’s consolidated balance sheets as of September 30, 2017 and December 31, 2016.

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

22. Subsequent Event

On October 24, 2017, a wholly owned subsidiary of the Company entered into a definitive purchase agreement to acquire substantially all the assets of Health Integrated, Inc. Based in Tampa, Florida, Health Integrated is a care management company that provides end-to-end technology and analytics-enabled care management services including case management, utilization management, disease management, special needs programs, and multichronic care management on behalf of health plans. Health Integrated currently serves over five million lives in the Medicaid, Medicare, and dual eligible populations. It is known for its strong capabilities in improving member health status through behavioral change. The acquisition is expected to close in the first quarter of 2018, subject to the fulfillment of certain closing conditions, including regulatory and other consents.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in connection with our unaudited consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. Some of the statements in the following discussion are forward looking statements. Dollar amounts within Item 2 are presented as actual, approximated, dollar amounts.

Cautionary Note Regarding Forward-Looking Statements

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

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

These and other factors are more fully discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. These and other risks could cause actual results to differ materially from those implied by forward-looking statements in this Quarterly Report on Form 10-Q.

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

federal securities laws.

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Executive Overview

We operate in the business process management ("BPM") industry and we provide operations management and analytics services that help the business enhance growth and profitability. Using our proprietary platforms, methodologies and tools we look deeper to help our clients improve global operations, enhance data-driven insights, increase customer satisfaction, and manage risk and compliance. Our eight operating segments are strategic business units that align our products and services with how we manage our business, approach our key markets and interact with our clients. Six of those operating segments provide BPM or "operations management" services, which we organize into industry-focused operating segments (Insurance, Healthcare, Travel, Transportation and Logistics, Banking and Financial Services, and Utilities) and one "capability" operating segment (Finance and Accounting) that provides services to clients in our industry-focused segments as well as clients across other industries. In each of these six operating segments we provide operations management services, which typically involve transfer to the Company of select business operations of a client, after which we administer and manage those operations for our client on an ongoing basis. Our remaining two operating segments are Consulting, which provides industry-specific transformational services related to operations management services, and our Analytics operating segment, which provides services that focus on driving improved business outcomes for clients by generating data-driven insights across all parts of their business.

In prior periods we presented two reportable segments: Operations Management (which included our Insurance, Healthcare, Travel, Transportation and Logistics, Finance and Accounting, Banking and Financial services, Utilities and Consulting operating segments) and Analytics. Effective for the quarter and year ended December 31, 2016, we present information for the following reportable segments:

- Insurance
- Healthcare
- Travel, Transportation and Logistics ("TT&L")
- Finance and Accounting ("F&A"), and
- Analytics

The remaining operating segments, which includes our Banking and Financial Services, Utilities and Consulting operating segments have been included in a category called "All Other". This change in segment presentation does not affect our consolidated statements of income, balance sheets or statements of cash flows. For further descriptions of our operating segments, see Note 3 to the unaudited consolidated financial statements contained herein.

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

Revenues

For the three months ended September 30, 2017, we had revenues of $192.3 million compared to revenues of $171.2 million for the three months ended September 30, 2016, an increase of $21.1 million, or 12.4%. For the nine months ended September 30, 2017, we had revenues of $564.4 million compared to revenues of $508.7 million for the nine months ended September 30, 2016, an increase of $55.7 million, or 11.0%.

We serve clients mainly in the U.S. and the U.K., with these two regions generating approximately 82.4% and 13.9%, respectively, of our total revenues for the three months ended September 30, 2017 and approximately 80.1% and 16.4%, respectively, of our revenues for the three months ended September 30, 2016. For the nine months ended September 30, 2017, these two regions generated 82.0% and 14.5%, respectively, of our total revenues and 80.1% and 16.6%, respectively, of our total revenues for the nine months ended September 30, 2016.

For the three months ended September 30, 2017 and 2016, our total revenues from our top ten clients accounted for 38.3% and 41.0% of our total revenues, respectively. For the nine months ended September 30, 2017 and 2016, our total revenues from our top ten clients accounted for 38.7% and 40.6% of our total revenues, respectively. None of our

clients individually accounted for more than 10% of our total revenues during the three and nine months ended September 30, 2017 and 2016. Although we intend to continue increasing and diversifying our customer base, we expect in the near future that a significant portion of our revenue will continue to be contributed by a limited number of large clients.

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Our Business

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

Operations Management Services: We provide our clients with a range of operations management services principally in the Insurance, Healthcare, Travel, Transportation and Logistics, Banking and Financial Services and Utilities sectors, among others, as well as cross-industry operations management services, such as Finance and Accounting Services. We also provide services related to operations management, through our Consulting services that provide advice regarding transformational initiatives.

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

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

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

Analytics: Our Analytics services focus on driving improved business outcomes for our customers by generating data-driven insights across all parts of our customers' business. Our teams deliver predictive and prescriptive analytics in the areas of customer acquisition and lifecycle management, risk underwriting and pricing, operational effectiveness, credit and operational risk monitoring and governance, regulatory reporting, and data management. We actively cross-sell and, where appropriate, integrate our Analytics services with other operations management services as part of a comprehensive offering set for our clients.

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

Critical Accounting Policies and Estimates

For a description of our critical accounting policies and estimates, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" and Note 2 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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Results of Operations

The following table summarizes our results of operations for the three and nine months ended September 30, 2017 and 2016:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(dollars in millions)		(dollars in millions)	
Revenues, net	$192.3	$171.2	$564.4	$508.7
Cost of revenues (exclusive of depreciation and amortization)	124.9	111.8	370.5	332.2
Gross profit	67.4	59.4	193.9	176.5
Operating expenses:				
General and administrative expenses	26.9	21.9	75.8	63.6
Selling and marketing expenses	12.2	11.6	38.7	37.9
Depreciation and amortization	9.7	8.6	28.8	25.0
Total operating expenses	48.8	42.1	143.3	126.5
Income from operations	18.6	17.3	50.6	50.0
Foreign exchange gain, net	2.8	1.7	7.3	3.6
Interest expense	(0.4)	(0.3)	(1.4)	(1.0)
Other income, net	2.9	2.9	8.9	12.2
Income before income tax expense	23.9	21.6	65.4	64.8
Income tax expense	2.8	5.6	7.2	18.5
Net income	$21.1	$16.0	$58.2	$46.3

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Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016
Revenues.

The following table summarizes our revenues by reportable segment for the three months ended September 30, 2017 and 2016:

	Three months ended September 30,			Percentage change	
	2017	2016	Change		
	(dollars in millions)				
Insurance	$59.6	$52.8	$6.8	12.9	%
Healthcare	18.9	16.0	2.9	18.2	%
Travel, Transportation and Logistics	18.5	17.5	1.0	5.6	%
Finance and Accounting	21.6	19.9	1.7	9.0	%
All Other	20.0	23.4	(3.4)	(14.7)	%
Analytics	53.7	41.6	12.1	29.1	%
Total revenues, net	$192.3	$171.2	$21.1	12.4	%

Revenues for the three months ended September 30, 2017 were $192.3 million, up $21.1 million or 12.4% compared to the three months ended September 30, 2016.

Revenue growth in Insurance of $6.8 million was driven by expansion of business from our new and existing clients of $6.4 million. The remaining increase of $0.4 million is attributable to a net impact of appreciation of the South African Rand and Indian rupee during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Insurance revenues were 31.0% and 30.9% of our total revenues in the three months ended September 30, 2017 and September 30, 2016, respectively.

Revenue growth in Healthcare of $2.9 million was driven by expansion of business from our new and existing clients. Healthcare revenues were 9.8% and 9.3% of our total revenues in the three months ended September 30, 2017 and September 30, 2016, respectively.

Revenue growth in Travel, Transportation and Logistics ("TT&L") of $1.0 million was primarily driven by net volume increase from our new and existing clients of $1.2 million, partially offset by $0.2 million impact due to depreciation of the Philippine Peso against the U.S. dollar during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. TT&L revenues were 9.6% and 10.2% of our total revenues in the three months ended September 30, 2017 and September 30, 2016, respectively.

Revenue growth in Finance and Accounting ("F&A") of $1.7 million was driven by expansion of business from our new and existing clients. F&A revenues were 11.3% and 11.6% of our total revenues in the three months ended September 30, 2017 and September 30, 2016, respectively.

Revenue decline in All Other of $3.4 million was driven primarily by lower revenue in our Consulting and Utilities operating segments, aggregating to $3.7 million. This was partially offset by a net increase of $0.3 million due to the appreciation of the Indian rupee against the U.S. dollar during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. All Other revenues were 10.4% and 13.7% of our total revenues in the three months ended September 30, 2017 and September 30, 2016, respectively.

Revenue growth in Analytics of $12.1 million was driven by our recurring and project based engagements from our new and existing clients of $11.9 million, including $6.5 million from our IQR Consulting Inc. ("IQR") and Datasource Consulting, LLC ("Datasource") acquisitions in 2016. The increase of $0.2 million is attributable to the appreciation of Indian rupee during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Analytics revenues were 27.9% and 24.3% of our total revenues in the three months ended September 30, 2017 and September 30, 2016, respectively.

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

	Cost of Revenues Three months ended September 30,				Gross Margin Three months ended September 30,			
	2017	2016	Change	Percentage change	2017	2016	Change	
	(dollars in millions)							
Insurance	$39.7	$37.8	$1.9	5.0 %	33.4%	28.4%	5.0	%
Healthcare	12.0	10.9	1.1	9.9 %	36.6%	31.8%	4.8	%
TT&L	10.1	10.6	(0.5)	(4.7)%	45.2%	39.3%	5.9	%
F & A	13.3	12.0	1.3	10.8 %	38.5%	39.5%	(1.0)	%
All Other	13.6	14.7	(1.1)	(7.0)%	31.8%	37.4%	(5.6)	%
Analytics	36.2	25.8	10.4	40.2 %	32.7%	38.1%	(5.4)	%
Total	$124.9	$111.8	$13.1	11.7 %	35.1%	34.7%	0.4	%

For the three months ended September 30, 2017, cost of revenues was $124.9 million compared to $111.8 million for the three months ended September 30, 2016, an increase of $13.1 million, or 11.7%. Our gross margin for the three months ended September 30, 2017 was 35.1% compared to 34.7% for three months ended September 30, 2016, an increase of 40 basis points (“bps”).

The increase in cost of revenues in Insurance of $1.9 million was primarily due to an increase in employee-related costs of $1.6 million on account of higher headcount and wage inflation, technology and infrastructure costs of $0.6 million. This was partially offset by a decrease in other operating costs of $0.4 million. There was a net increase of $0.2 million due to the appreciation of the Indian rupee and depreciation of the Philippine peso against the U.S. dollar during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Gross margin increased by 500 bps during the three months ended September 30, 2017 compared to the three months ended September 30, 2016, primarily due to higher revenues and margin expansion in existing clients.

The increase in cost of revenues in Healthcare of $1.1 million was primarily due to an increase in employee-related costs of $1.2 million on account of higher headcount and wage inflation, technology and infrastructure costs of $0.3 million. This was partially offset by $0.4 million due to the depreciation of the Philippine peso against the U.S. dollar during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Gross margin increased by 480 bps during the three months ended September 30, 2017 compared to the three months ended September 30, 2016, primarily due to higher revenues and operational efficiencies.

The decrease in cost of revenues in TT&L of $0.5 million was primarily due to a decrease in employee-related costs of $0.2 million on account of lower headcount (partially offset by wage inflation), decrease in infrastructure costs of $0.1 million and decrease in other operating costs of $0.1 million. There was a decrease of $0.1 million due to the depreciation of the Philippine peso against the U.S. dollar during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Gross margin increased by 590 bps during the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 due to margin expansion in existing clients and lower operating costs.

The increase in cost of revenues in F&A of $1.3 million was primarily due to an increase in employee-related costs of $0.6 million on account of higher headcount and wage inflation, infrastructure costs of $0.1 million and travel costs of $0.4 million. There was an increase of $0.3 million due to the appreciation of the Indian rupee against the US dollar during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Gross margin decreased by 100 bps during the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to migration costs associated with our new client wins and higher reimbursable travel related costs with lower gross margin.

The decline in cost of revenues in All Other of $1.1 million was primarily due to a decrease in employee-related costs of $0.6 million on account of lower headcount, partially offset by wage inflation. There was also a decrease in travel related costs of $0.3 million, infrastructure costs and other operating costs aggregating to $0.2 million during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Gross margin decreased by 560 bps during the three months ended September 30, 2017 compared to the three months ended September 30, 2016, primarily due to lower revenues in our Consulting and Utilities operating segments.

The increase in cost of revenues in Analytics of $10.4 million was primarily due to an increase in employee-related costs of $9.0 million (including $5.4 million related to the IQR and Datasource acquisitions in 2016) on account of higher

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headcount and wage inflation, and an increase in technology costs of $0.4 million, infrastructure costs of $0.5 million and travel costs of $0.4 million. This was partially offset by a reduction in our other operating expenses of $0.4 million. There was an increase of $0.3 million due to the appreciation of the Indian rupee against the U.S. dollar during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Gross margin decreased by 540 bps during the three months ended September 30, 2017 compared to the three months ended September 30, 2016, primarily due to higher operating costs and lower gross margin from our 2016 acquisitions.

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

	Three months ended September 30,			Percentage change
	2017	2016	Change	
	(dollars in millions)			
General and administrative expenses	$26.9	$21.9	$ 5.0	23.0 %
Selling and marketing expenses	12.2	11.6	0.6	5.2 %
Selling, general and administrative expenses	$39.1	$33.5	$ 5.6	16.8 %
As a percentage of revenues	20.3 %	19.6 %		

The increase in SG&A expenses was primarily due to an increase in employee-related costs of $2.2 million (including $1.6 million of incremental employee-related costs related to our 2016 acquisitions) as a result of annual wage increments and an increase in our average headcount to support the increased business volumes. There was an increase of $1.8 million due to recognition of reserve for doubtful account receivables, $0.5 million of infrastructure costs related to our new operating centers and $0.5 million of other operating expenses. There was a net increase of $0.2 million due to the appreciation of the Indian rupee and depreciation of the Philippine peso against the U.S. dollar during the three months ended September 30, 2017 compared to the three months ended September 30, 2016.

Depreciation and Amortization.

	Three months ended September 30,			Percentage change
	2017	2016	Change	
	(dollars in millions)			
Depreciation expense	$6.2	$5.7	$ 0.5	8.2 %
Intangible amortization expense	3.5	2.9	0.6	22.4 %
Depreciation and amortization expense	$9.7	$8.6	$ 1.1	12.9 %
As a percentage of revenues	5.0 %	5.0 %		

Depreciation and amortization expense increased by $1.1 million, or 12.9%, from $8.6 million for the three months ended September 30, 2016 to $9.7 million for the three months ended September 30, 2017. The increase in intangibles amortization expense of $0.6 million was primarily due to amortization of intangibles associated with IQR and Datasource acquisitions in 2016. There was an increase in our depreciation expense of $0.5 million, due to depreciation related to our new operating centers in India and the Philippines to support our business growth and impact of our 2016 acquisitions.

Income from Operations. Income from operations increased $1.3 million, or 7.5%, from $17.3 million for the three months ended September 30, 2016 to $18.6 million for the three months ended September 30, 2017. As a percentage of revenues, income from operations decreased from 10.1% for the three months ended September 30, 2016 to 9.7% for the three months ended September 30, 2017.

Foreign Exchange Gain/(Loss). Net foreign exchange gains and losses are primarily attributable to movement of the U.S. dollar against the Indian rupee, the U.K. Pound sterling and the Philippine peso during the three months ended September 30, 2017. The average exchange rate of the U.S. dollar against the Indian rupee decreased from 66.73 during the three months ended September 30, 2016 to 64.45 during the three months ended September 30, 2017. The average exchange rate of the U.K. Pound sterling against the U.S. dollar remained flat at 1.31 during the three months ended September 30, 2016 and September 30, 2017. The average exchange rate of the U.S. dollar against the Philippine peso increased from 47.40 during the three months ended September 30, 2016 to 50.82 during the three months ended September 30, 2017.

We recorded a net foreign exchange gain of $2.8 million for the three months ended September 30, 2017 compared to $1.7 million for the three months ended September 30, 2016.

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Interest expense. Interest expense increased $0.1 million, from $0.3 million for the three months ended September 30, 2016 to $0.4 million for the three months ended September 30, 2017.
Other Income, net. Other income, net was flat at $2.9 million during the three months ended September 30, 2017.
Income Tax Expense. The effective tax rate decreased from 26.0% during the three months ended September 30, 2016 to 11.8% as a result of (i) excess tax benefit related to stock awards of $3.5 million pursuant to ASU No. 2016-09 during the three months ended September 30, 2017, and (ii) higher earnings from foreign subsidiaries and lower domestic profit in the U.S., partially offset by higher tax expense on account of the expiration of a tax holiday for some of the operating centers in India
Net Income. Net income increased from $16.0 million for the three months ended September 30, 2016 to $21.1 million for the three months ended September 30, 2017, primarily due to lower income tax expense of $2.8 million, higher income from operations of $1.3 million, higher foreign exchange gain of $1.1 million, partially offset by higher interest expense of $0.1 million. As a percentage of revenues, net income increased from 9.4% for the three months ended September 30, 2016 to 11.0% for the three months ended September 30, 2017.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016
Revenues.

The following table summarizes our revenues by reportable segment for the nine months ended September 30, 2017 and 2016:

	Nine months ended September 30,			Percentage change	
	2017	2016	Change		
	(dollars in millions)				
Insurance	$173.8	$151.7	$22.1	14.6	%
Healthcare	56.7	49.8	6.9	13.9	%
Travel, Transportation and Logistics	53.4	52.6	0.8	1.4	%
Finance and Accounting	63.7	59.0	4.7	8.0	%
All Other	62.5	75.4	(12.9)	(17.1)	%
Analytics	154.3	120.2	34.1	28.4	%
Total revenues, net	$564.4	$508.7	$55.7	11.0	%

Revenues for the nine months ended September 30, 2017 were $564.4 million, up $55.7 million or 11.0% compared to the nine months ended September 30, 2016.
Revenue growth in Insurance of $22.1 million was driven by expansion of business from our new and existing clients of $21.1 million, including incremental $2.6 million related to the July 2016 acquisition of Liss Systems Limited ("Liss"). The remaining increase of $1.0 million is attributable to a net impact of appreciation of the South African Rand and Indian rupee and depreciation of the U.K. Pound sterling against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Insurance revenues were 30.8% and 29.8% of our total revenues in the nine months ended September 30, 2017 and September 30, 2016, respectively.
Revenue growth in Healthcare of $6.9 million was driven by expansion of business from our existing and new clients. Healthcare revenues were 10.0% and 9.8% of our total revenues in the nine months ended September 30, 2017 and September 30, 2016, respectively.
Revenue growth in TT&L of $0.8 million was primarily driven by net volume increases from our existing clients of $1.6 million, partially offset by an impact of $0.8 million due to the depreciation of the Philippine Peso against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. TT&L revenues were 9.5% and 10.4% of our total revenues in the nine months ended September 30, 2017 and

September 30, 2016, respectively.
Revenue growth in F&A of $4.7 million was driven by expansion of business from our new and existing clients of $4.4 million. The remaining increase of $0.3 million is attributable to the appreciation of Indian rupee against the U.S. dollar

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during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. F&A revenues were 11.3% and 11.6% of our total revenues in the nine months ended September 30, 2017 and September 30, 2016, respectively.

Revenue decline in All Other of $12.9 million was driven primarily by lower revenue in our Consulting and Utilities operating segments, partially offset by higher revenue in our Banking and Financial Services operating segment, aggregating to $13.1 million. This was partially offset by $0.2 million impact due to the depreciation of the U.K. Pound sterling against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 in our Consulting operating segment. All Other revenues were 11.1% and 14.8% of our total revenues in the nine months ended September 30, 2017 and September 30, 2016, respectively.

Revenue growth in Analytics of $34.1 million was driven by our recurring and project based engagements from our new and existing clients of $34.4 million, including incremental $18.6 million from IQR and Datasource acquisitions in 2016. The increase was partially offset by a decrease of $0.3 million due to the depreciation of the U.K. Pound sterling against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Analytics revenues were 27.3% and 23.6% of our total revenues in the nine months ended September 30, 2017 and September 30, 2016, respectively.

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

	Cost of Revenues				Gross Margin		
	Nine months ended September 30,			Percentage change	Nine months ended September 30,		Change
	2017	2016	Change		2017	2016	
	(dollars in millions)						
Insurance	$119.0	$108.5	$10.5	9.7 %	31.5%	28.5%	3.0 %
Healthcare	36.4	32.5	3.9	12.2 %	35.8%	34.8%	1.0 %
TT&L	30.8	31.9	(1.1)	(3.4)%	42.2%	39.4%	2.8 %
F & A	39.2	35.4	3.8	10.7 %	38.5%	40.0%	(1.5)%
All Other	42.8	47.8	(5.0)	(10.6)%	31.6%	36.6%	(5.0)%
Analytics	102.3	76.1	26.2	34.4 %	33.7%	36.7%	(3.0)%
Total	$370.5	$332.2	$38.3	11.5 %	34.4%	34.7%	(0.3)%

For the nine months ended September 30, 2017, cost of revenues was $370.5 million compared to $332.2 million for the nine months ended September 30, 2016, an increase of $38.3 million, or 11.5%. Our gross margin for the nine months ended September 30, 2017 was 34.4% compared to 34.7% for the nine months ended September 30, 2016, a decrease of 30 basis points (bps).

The increase in cost of revenues in Insurance of $10.5 million was primarily due to an increase in employee-related costs of $8.2 million (including $1.3 million from our Liss acquisition) on account of higher headcount and wage inflation, and technology and infrastructure costs of $2.8 million. This was partially offset by a decrease in travel related costs of $0.6 million and other operating costs of $0.7 million. There was a net increase of $0.7 million due to the appreciation of the Indian rupee and depreciation of the Philippine peso against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Gross margin increased by 300 bps during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, primarily due to higher revenues and lower operating costs.

The increase in cost of revenues in Healthcare of $3.9 million was primarily due to an increase in employee-related costs of $3.9 million on account of higher headcount and wage inflation, technology costs of $0.6 million and infrastructure costs of $0.4 million. This was partially offset by a decrease of $1.0 million due to the depreciation of

the Philippine peso against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Gross margin increased by 100 bps during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, primarily due to higher revenues and operational efficiencies.

The decrease in cost of revenues in TT&L of $1.1 million was primarily due to decrease in infrastructure cost of $0.3 million, other operating costs of $0.2 million and employee-related costs of $0.1 million on account of lower headcount (partially offset by wage inflation).The cost of revenue also decreased due to depreciation of the Philippine peso against the U.S. dollar of $0.3 million during the nine months ended September 30, 2017 compared to the nine months ended September

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30, 2016. Gross margin increased by 280 bps during the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 primarily due to higher revenues and lower operating costs.

The increase in cost of revenues in F&A of $3.8 million was primarily due to an increase in employee-related costs of $2.3 million on account of higher headcount and wage inflation and infrastructure costs of $0.7 million. There was an increase of $0.7 million due to the appreciation of the Indian rupee against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Gross margin decreased by 150 bps during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, primarily due to migration costs associated with our new client wins and higher reimbursable travel related costs with lower gross margin.

The decline in cost of revenues in All Other of $5.0 million was primarily due to a decrease in employee-related costs of $2.9 million on account of lower headcount, partially offset by wage inflation. There was also a decrease in travel related costs of $1.6 million and other operating expenses of $0.5 million. Gross margin decreased by 500 bps during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, primarily due to lower revenues in our Consulting and Utilities operating segments.

The increase in cost of revenues in Analytics of $26.2 million was primarily due to an increase in employee-related costs of $24.8 million (including incremental $15.1 million related to our IQR and Datasource acquisitions in 2016) on account of higher headcount and wage inflation, an increase in technology costs of $0.9 million, infrastructure costs of $0.9 million and travel costs of $0.3 million. This was partially offset by reduction in our other operating costs of $1.4 million. There was an increase of $0.6 million due to the appreciation of the Indian rupee against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Gross margin decreased by 300 bps during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, primarily due to higher employee costs and lower gross margin from our 2016 acquisitions.

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

	Nine months ended September 30,			Percentage change	
	2017	2016	Change		
	(dollars in millions)				
General and administrative expenses	$75.8	$63.6	$ 12.2	19.2	%
Selling and marketing expenses	38.7	37.9	0.8	2.2	%
Selling, general and administrative expenses	$114.5	$101.5	$ 13.0	12.8	%
As a percentage of revenues	20.3 %	20.0 %			

The increase in SG&A expenses was primarily due to an increase in employee-related costs of $8.2 million (including $4.1 million of incremental employee-related costs related to our 2016 acquisitions) as a result of annual wage increments and an increase in our average headcount to support the increased business volumes. There was an increase of $2.7 million due to recognition of reserve for doubtful account receivables and infrastructure costs of $1.5 million related to our new operating centers. There was a net increase of $0.7 million due to the appreciation of the Indian rupee and depreciation of the Philippine peso against the U.S. dollar during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016.

Depreciation and Amortization.

	Nine months ended September 30,			Percentage change	
	2017	2016	Change		
	(dollars in millions)				
Depreciation expense	$18.3	$16.7	$ 1.6	9.3	%

Intangible amortization expense	10.5	8.3	2.2	26.7	%
Depreciation and amortization expense	$28.8	$25.0	$ 3.8	15.1	%
As a percentage of revenues	5.1 %	4.9 %			

Depreciation and amortization expense increased by $3.8 million, or 15.1%, from $25.0 million for the nine months ended September 30, 2016 to $28.8 million for the nine months ended September 30, 2017. The increase in intangible amortization expense of $2.2 million was primarily due to amortization of intangibles associated with our 2016 acquisitions. Further, there was an increase in our depreciation expense of $1.6 million related to our new operating centers in India and the Philippines and to support our business growth and depreciation expense associated with our 2016 acquisitions.

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Income from Operations. Income from operations increased by $0.6 million, or 1.3%, from $50.0 million for the nine months ended September 30, 2016 to $50.6 million for the nine months ended September 30, 2017. As a percentage of revenues, income from operations decreased from 9.8% for the nine months ended September 30, 2016 to 9.0% for the nine months ended September 30, 2017.

Foreign Exchange Gain/(Loss). Net foreign exchange gains and losses are primarily attributable to movement of the U.S. dollar against the Indian rupee, the U.K. Pound sterling and the Philippine peso during the nine months ended September 30, 2017. The average exchange rate of the U.S. dollar against the Indian rupee decreased from 67.10 during the nine months ended September 30, 2016 to 65.12 during the nine months ended September 30, 2017. The average exchange rate of the U.K. Pound sterling against the U.S. dollar decreased from 1.38 during the nine months ended September 30, 2016 to 1.28 during the nine months ended September 30, 2017. The average exchange rate of the U.S. dollar against the Philippine peso increased from 47.13 during the nine months ended September 30, 2016 to 50.31 during the nine months ended September 30, 2017.
We recorded a net foreign exchange gain of $7.3 million for the nine months ended September 30, 2017 compared to $3.6 million for the nine months ended September 30, 2016.

Interest expense. Interest expense increased by $0.4 million from $1.0 million for the nine months ended September 30, 2016 to $1.4 million for the nine months ended September 30, 2017, due to financing cost associated with purchase of software.

Other Income, net

	Nine months ended September 30,			Percentage change	
	2017	2016	Change		
	(dollars in millions)				
Interest and dividend income	$1.3	$1.2	$ 0.1	9.0	%
Gain on mutual fund investments	6.8	6.2	0.6	9.5	%
Change in fair value of earn-out consideration	—	4.1	(4.1)	(100.0)	%
Other, net	0.8	0.7	0.1	5.3	%
Other income, net	$8.9	$12.2	$ (3.3)	(27.3)	%

Increase in interest and dividend income of $0.1 million and increase in gain on mutual fund investments of $0.6 million was primarily due to higher cash balances in certain of our foreign subsidiaries and higher gain on sale of investment during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. We also recorded other income of $4.1 million during the nine months ended September 30, 2016 due to the reversal of earn-out liability related to our RPM acquisition in 2015.

Income Tax Expense. The effective tax rate decreased from 28.6% during the nine months ended September 30, 2016 to 11.0% as a result of (i) excess tax benefit related to stock awards of $7.2 million pursuant to ASU No. 2016-09 during the nine months ended September 30, 2017, (ii) conclusion of an uncertain tax position of $3.2 million (including interest of $1.4 million), and (iii) higher earnings from foreign subsidiaries and lower domestic profit in the U.S., partially offset by higher tax expense on account of the expiration of a tax holiday for some of the operating centers in India.

Net Income. Net income increased from $46.3 million for the nine months ended September 30, 2016 to $58.2 million for the nine months ended September 30, 2017, primarily due to lower income tax expense of $11.3 million, higher foreign exchange gain of $3.7 million, higher income from operations of $0.6 million partially offset by lower other income of $3.3 million and higher interest expense of $0.4 million.

As a percentage of revenues, net income increased from 9.1% for the nine months ended September 30, 2016 to 10.3% for the nine months ended September 30, 2017.

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Liquidity and Capital Resources

	Nine months ended September 30,	
	2017	2016
	(dollars in millions)	
Opening cash and cash equivalents	$213.2	$205.3
Net cash provided by operating activities	72.2	56.0
Net cash used for investing activities	(171.2)	(126.2)
Net cash used for financing activities	(28.2)	(34.2)
Effect of exchange rate changes	1.7	(2.5)
Closing cash and cash equivalents	$87.7	$98.4

As of September 30, 2017 and December 31, 2016, we had $249.4 million and $226.6 million, respectively, in cash, cash equivalents and short-term investments (including $205.1 million and $170.1 million, respectively, held by our foreign subsidiaries). We do not intend to repatriate funds held by our foreign subsidiaries since our future growth partially depends upon continued infrastructure and technology investments, geographical expansions and acquisitions outside of the U.S. Therefore, we anticipate that we will indefinitely reinvest the earnings generated outside of the U.S. If we were to repatriate our overseas funds, we would accrue and pay applicable taxes.

Operating Activities: Cash flows from operating activities increased by $16.2 million from $56.0 million for the nine months ended September 30, 2016 to $72.2 million for the nine months ended September 30, 2017. The increase in cash flows from operations for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 was due to an increase in net income by $12.0 million, increase in non-cash adjustment of $3.9 million and decrease in working capital of $0.3 million from $25.2 million during the nine months ended September 30, 2016 to $24.9 million during the nine months ended September 30, 2017.

Investing Activities: Cash flows used for investing activities increased by $45.0 million from $126.2 million for the nine months ended September 30, 2016 to $171.2 million for the nine months ended September 30, 2017. The increase was primarily due to an increase in short-term investments of $47.2 million (net of redemption) and due to an increase in capital expenditures of $6.4 million during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. This was partially offset by amount paid for business acquisition of $9.4 million during the nine months ended September 30, 2016 compared to $0.7 million paid for settlement of working capital and purchase consideration payable related to 2016 acquisitions during the nine months ended September 30, 2017.

Financing Activities: Cash flows used for financing activities was $28.2 million during the nine months ended September 30, 2017 compared to $34.2 million during the nine months ended September 30, 2016. The decrease in cash flow used for financing activities between periods is primarily due to repayment of borrowings of $25.0 million under the Credit Agreement (as described below in “Financing Arrangements”) during the nine months ended September 30, 2016. This was partially offset by higher purchases of treasury stock of $17.2 million and lower proceeds from exercise of stock options of $2.0 million during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016.

We expect to use cash from operating activities to maintain and expand our business. As we have focused on expanding our cash flow from operating activities we continue to make capital investments, primarily related to new facilities and capital expenditures associated with leasehold improvements to build our facilities and the purchase of telecommunications equipment and computer hardware and software in connection with managing client operations. We incurred $26.8 million of capital expenditures in the nine months ended September 30, 2017. We expect to incur capital expenditures of between $30.0 million to $35.0 million in 2017, primarily to meet our growth requirements, including additions to our facilities as well as investments in technology applications and infrastructure, but the actual amount may vary based on economic conditions or other factors.

In connection with any tax assessment orders that have been issued or may be issued against us or our subsidiaries, we may be required to deposit additional amounts with respect to such assessment orders (refer to Note 21 to the unaudited consolidated financial statements contained herein for further details). We anticipate that we will continue to rely upon cash from operating activities to finance our smaller acquisitions, capital expenditures and working capital needs. If we have significant growth through acquisitions, we may need to obtain additional financing.

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Financing Arrangements (Debt Facility)

Our Credit Agreement provides for revolving credit facility (the "Credit Facility"), including a letter of credit sub-facility, in the amount of $100.0 million. The Credit Facility has a maturity date of October 24, 2019 and is voluntarily pre-payable from time to time without premium or penalty. As of September 30, 2017, we had outstanding indebtedness of $45.0 million which is included under "long term borrowings" in the unaudited consolidated balance sheets.

Borrowings under the Credit Facility may be used for working capital and general corporate purposes of the Company and its subsidiaries and for acquisitions.

Depending on the type of borrowing, loans under the Credit Agreement bear interest at a rate equal to the specified prime rate (alternate base rate) or adjusted LIBO rate, plus, in each case, an applicable margin. The applicable margin is tied to the Company's leverage ratio and ranges from 0.3% to 0.8% per annum with respect to loans pegged to the specified prime rate, and 1.3% to 1.8% per annum on loans pegged to the adjusted LIBO rate. The revolving credit commitments under the Credit Agreement are subject to a commitment fee. The commitment fee is also tied to the Company's leverage ratio, and ranges from 0.2% to 0.3% per annum on the average daily amount by which the aggregate revolving commitments exceed the sum of outstanding revolving loans and letter of credit obligations. The Credit Facility carried an effective interest rate per annum of 2.9% and 2.7% during the three and nine months ended September 30, 2017, respectively.

Off-Balance Sheet Arrangements

As of September 30, 2017 and December 31, 2016, we had no off-balance sheet arrangements or obligations.

Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2017:

	Payment Due by Period				
	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
	(dollars in millions)				
Capital leases	$0.2	$0.3	$0.1	$—	$0.6
Operating leases	10.5	13.3	4.3	0.9	29.0
Purchase obligations	7.2	0.2	—	—	7.4
Other obligations[(a)]	2.8	4.6	3.7	5.2	16.3
Borrowings					
Principal payments	—	45.0	—	—	45.0
Interest Payments[(b)]	1.3	1.3	—	—	2.6
Total contractual cash obligations[(c)]	$22.0	$64.7	$8.1	$6.1	$100.9

(a) Represents estimated payments under the Gratuity Plan.

(b) Interest on borrowings is calculated based on the effective interest rate on the outstanding borrowings as of September 30, 2017.

(c) Excludes $1.5 million related to uncertain tax positions, since the extent of the amount and timing of payment is currently not reliably estimable or determinable.

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

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

Recent Accounting Pronouncements

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

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

During the three months ended September 30, 2017, there were no material changes in our market risk exposure. For a discussion of our market risk associated with exchange rate risk and interest rate risk, see Item 7A "Quantitative and Qualitative Disclosures about Market Risk" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to allow timely decisions regarding required disclosure. In connection with the preparation of this Quarterly Report on Form 10-Q, our management carried out an evaluation, under the supervision and with the participation of the CEO and CFO, of the effectiveness and operation of our disclosure controls and procedures as of September 30, 2017. Based upon that evaluation, the CEO and CFO have concluded that, as of September 30, 2017, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

During the three months ended September 30, 2017, there was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

ITEM 1. Legal Proceedings

In the course of our normal business activities, various lawsuits, claims and proceedings may be instituted or asserted against us. We believe that the disposition of matters currently instituted or asserted will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. Please see Note 21 to the unaudited consolidated financial statements contained herein for details regarding our tax proceedings.

ITEM 1A. Risk Factors

We have disclosed under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 a number of risks which may materially affect our business, financial condition or results of operations. You should carefully consider the "Risk Factors" set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and the other information set forth elsewhere in this Quarterly Report on Form 10-Q. You should be aware that these risk factors and other information may not describe every risk facing our Company. Additional risks and uncertainties not currently known to us may also materially adversely affect our business, financial condition and/or results of operations.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

None.

Use of Proceeds

None.

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Purchases of Equity Securities by the Issuer
During the three months ended September 30, 2017, purchases of common stock were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs[1]
July 1, 2017 through July 31, 2017	—	—	—	19,684,088
August 1, 2017 through August 31, 2017	107,633	56.12	107,633	13,643,362
September 1, 2017 through September 30, 2017	52,400	56.55	52,400	10,680,041
Total	160,033	56.26	160,033	—

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

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures
Not applicable.

ITEM 5. Other Information
None.

ITEM 6. Exhibits
See Exhibit Index immediately following the signature page hereto, which Exhibit Index is incorporated herein by reference.

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SIGNATURES

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

Date: October 26, 2017 EXLSERVICE HOLDINGS, INC.

By: /S/ VISHAL CHHIBBAR
Vishal Chhibbar
Chief Financial Officer
(Duly Authorized Signatory, Principal Financial and Accounting Officer)

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EXHIBIT INDEX

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

3.1	Amended and Restated Certificate of Incorporation of the Company, as in effect on the date hereof (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K (File No. 1-33089) filed on October 25, 2006).
3.2	Fourth Amended and Restated By-Laws of ExlService Holdings, Inc., as in effect on the date hereof (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (File No. 1-33089) filed on February 28, 2017).
10.1	Amended and Restated Employment and Non-Competition Agreement, dated September 19, 2017, by and between ExlService Holdings and Rohit Kapoor.
31.1	Certification of the Chief Executive Officer of ExlService Holdings, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of ExlService Holdings, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Scheme
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Extension Presentation Linkbase