

ExlService Holdings, Inc.  
Form 10-Q  
May 12, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008**

**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)

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**DELAWARE**  
(State or other jurisdiction of

**82-0572194**  
(I.R.S. Employer

incorporation or organization)

Identification No.)

**350 PARK AVENUE, NEW YORK, NEW YORK**  
(Address of principal executive offices)

**10022**  
(Zip code)

**(212) 277-7100**

(Registrant's telephone number, including area code)

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

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

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

(Do not check if a smaller reporting company)

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

As of April 30, 2008, there were 28,778,799 shares of the registrant's common stock outstanding (excluding 164,293 shares held in treasury), par value \$0.001 per share.

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****EXLSERVICE HOLDINGS, INC.****CONSOLIDATED BALANCE SHEETS**

	<b>March 31, 2008 (Unaudited)</b>	<b>December 31, 2007 (Audited)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 85,674,840	\$ 102,209,734
Restricted cash	789,024	285,089
Short-term investments	257,035	252,561
Accounts receivable, net of allowance for doubtful accounts of \$85,539 at March 31, 2008 and December 31, 2007	46,895,230	38,513,774
Accounts receivable from related parties	66,806	338,629
Employee receivables	182,965	225,624
Prepaid expenses	2,720,275	2,947,064
Deferred tax assets	3,292,833	3,279,715
Prepaid income tax	791,264	
Other current assets	4,470,474	7,541,165
<b>Total current assets</b>	<b>145,140,746</b>	<b>155,593,355</b>
Fixed assets, net	28,984,105	25,244,603
Intangibles, net of amortization	321,871	340,000
Goodwill	17,442,036	16,785,487
Restricted cash	344,520	304,316
Deferred tax assets	4,614,472	4,498,449
Other assets	10,889,097	8,047,497
<b>Total assets</b>	<b>\$ 207,736,847</b>	<b>\$ 210,813,707</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 3,420,889	\$ 6,389,425
Deferred revenue	3,347,584	4,440,261
Accrued employee cost	8,014,167	13,774,306
Other accrued expenses and current liabilities	13,668,156	10,563,187
Income taxes payable		729,715
Current portion of capital lease obligation	123,588	125,960
<b>Total current liabilities</b>	<b>28,574,384</b>	<b>36,022,854</b>
Capital lease obligations, less current portion	241,427	258,399
Other non current liabilities	1,926,281	552,685
<b>Total liabilities</b>	<b>30,742,092</b>	<b>36,833,938</b>
Preferred stock, \$0.001 par value; 15,000,000 shares authorized		
Stockholders equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized, 28,937,622 shares issued and outstanding as of March 31, 2008 and 28,891,043 shares issued and outstanding as of December 31, 2007	28,938	28,891

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Additional paid-in capital	112,011,177	110,988,552
Retained earnings	62,399,935	55,708,233
Accumulated other comprehensive income	2,883,577	7,570,026
	177,323,627	174,295,702
Less: 164,293 shares as at March 31, 2008 and 163,690 shares as at December 31, 2007, held in treasury, at cost	(328,872)	(315,933)
Total stockholders' equity	176,994,755	173,979,769
Total liabilities and stockholders' equity	\$ 207,736,847	\$ 210,813,707

*See accompanying notes*

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**EXLSERVICE HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(UNAUDITED)**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
Revenues	\$ 50,803,741	\$ 39,504,001
Revenues (from related parties)	144,889	350,447
<b>Total revenues</b>	<b>50,948,630</b>	<b>39,854,448</b>
Cost of revenues (exclusive of depreciation and amortization)	32,364,827	24,481,968
<b>Gross profit</b>	<b>18,583,803</b>	<b>15,372,480</b>
Operating expenses:		
General and administrative expenses	8,465,049	6,035,547
Selling and marketing expenses	2,374,350	1,963,530
Depreciation and amortization	2,703,039	2,440,902
<b>Total operating expenses</b>	<b>13,542,438</b>	<b>10,439,979</b>
<b>Income from operations</b>	<b>5,041,365</b>	<b>4,932,501</b>
Other income/(expense):		
Foreign exchange gain/(loss)	1,816,808	570,107
Interest and other income	580,478	1,007,802
Interest expense	(34,300)	(17,521)
<b>Income before income taxes</b>	<b>7,404,351</b>	<b>6,492,889</b>
Income tax provision	604,539	1,084,263
<b>Net income to common stockholders</b>	<b>\$ 6,799,812</b>	<b>\$ 5,408,626</b>
<b>Basic earnings per share to common stockholders</b>	<b>\$ 0.24</b>	<b>\$ 0.19</b>
<b>Diluted earnings per share to common stockholders</b>	<b>\$ 0.23</b>	<b>\$ 0.19</b>
Weighted-average number of shares used in computing earnings per share:		
Basic	28,757,077	28,141,321
Diluted	29,292,838	29,084,264

*See accompanying notes*

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	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
Cash flows from operating activities		
Net income	\$ 6,799,812	\$ 5,408,626
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,703,039	2,440,902
Amortization of deferred stock compensation and other non-cash compensation	988,328	828,209
Non employee stock options	73,755	116,252
Foreign exchange gain (unrealized)	(851,376)	(100,073)
Deferred income taxes	(196,153)	(587,060)
Excess tax benefit from stock based compensation		(28,861)
Change in operating assets and liabilities (net of effect of acquisitions):		
Restricted cash	(551,140)	646,613
Accounts receivable	(7,605,218)	(8,328,839)
Prepaid expenses and other current assets	3,158,822	932,684
Accounts payable	(933,559)	(568,915)
Deferred revenue	(1,073,308)	(500,371)
Accrued expenses and other liabilities	(5,922,955)	(3,759,990)
Income taxes payable	(1,516,968)	(912,045)
Other assets	(3,082,979)	(3,901,928)
Net cash used for operating activities	(8,009,900)	(8,314,796)
Cash flows from investing activities		
Purchase of fixed assets	(6,849,131)	(3,039,802)
Business acquisition	(1,695,655)	
Purchase of short-term investments	(4,474)	
Net cash used in investing activities	(8,549,260)	(3,039,802)
Cash flows from financing activities		
Principal payments on capital lease obligations	3,602	(119,767)
Proceeds from exercise of stock options	30,320	10,367
Excess tax benefit from stock-based compensation		28,861
Acquisition of treasury stock	(12,939)	
Net cash provided by/(used for) financing activities	20,983	(80,539)
Effect of exchange rate changes on cash and cash equivalents	3,283	(3,786)
Net decrease in cash and cash equivalents	(16,534,894)	(11,438,923)
Cash and cash equivalents at the beginning of the year	102,209,734	85,366,103
Cash and cash equivalents at the end of the period	\$ 85,674,840	\$ 73,927,180
Supplemental disclosure of cash flow information:		

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Cash paid for interest	\$ 25,182	\$ 12,440
Cash paid for taxes	\$ 2,223,000	\$ 2,486,756
Supplemental disclosure of non-cash information:		
Assets acquired under capital lease	\$ 31,492	\$ 33,259
Fair value of shares issued for non-cash consideration	\$	\$ 5,449,042

*See accompanying notes*

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**EXLSERVICE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2008**

**(UNAUDITED)**

**1. Organization and Basis of Presentation**

*Organization*

ExlService Holdings, Inc. ( ExlService Holdings ) is organized as a corporation under the laws of the state of Delaware. ExlService Holdings, together with its subsidiaries ExlService.com, Inc. ( Exl Inc. ), ExlService Philippines, Inc. ( Exl Philippines ), exlService.com (India) Private Limited ( Exl India ), Noida Customer Operations Private Limited ( NCOP ), Exl Support Services Pvt. Ltd. ( ESSPL ), ExlService (U.K.) Limited ( Exl UK ) and Inductis Inc. and its wholly owned subsidiaries ( Inductis ), including Inductis LLC ( Inductis LLC ) and Inductis India Private Limited ( Inductis India ) (collectively, the Company ) is a leading provider of transformational outsourcing solutions, including business process outsourcing ( BPO ), research and analytics and advisory services. The Company s clients are located principally in the United States and the United Kingdom.

The common stock of the Company is listed on the NASDAQ Global Select Market under the symbol EXLS.

*Basis of Presentation*

The unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include certain information and note disclosures required by generally accepted accounting principles for annual financial reporting and should be read in conjunction with the consolidated financial statements and notes thereto included in the audited consolidated financial statements of ExlService Holdings for the year ended December 31, 2007 and Management s Discussion and Analysis of Financial Condition and Results of Operations included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

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

The consolidated balance sheet at December 31, 2007 was extracted from the audited consolidated balance sheet of ExlService Holdings included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

**2. Summary of Significant Accounting Policies**

*Principles of Consolidation*

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

*Use of Estimates*

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts

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**EXLSERVICE HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the consolidated statements of income during the reporting period. Estimates are based upon management's best assessment of the current business environment. Actual results could differ from those estimates. The significant estimates and assumptions that affect the financial statements include, but are not limited to, allowance for doubtful accounts, future obligations under employee benefit plans, income tax valuation allowances and tax reserves, stock-based compensation expense, depreciation and amortization periods, recoverability of long-term assets including goodwill and intangibles, and estimates to complete fixed price contracts.

***Foreign Currency***

The functional currency of each entity in the Company is its respective local country currency, which is also the currency of the primary economic environment in which it operates unless otherwise specified. Monetary assets and liabilities in foreign currencies are re-measured into functional currency at the rates of exchange prevailing at the balance sheet dates. Transactions in foreign currencies are re-measured into functional currency at the rates of exchange prevailing on the date of the transaction. All transaction foreign exchange gains and losses are recorded in the accompanying unaudited consolidated statements of income.

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

***Cash and Cash Equivalents***

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Pursuant to our investment policy, our surplus funds are kept as cash or cash equivalents and are invested in highly-rated commercial paper, U.S. treasury bills and money market accounts to reduce our exposure to market risk with regard to these funds.

***Short-Term Investments***

The Company's short-term investments consist of time deposits, which mature in less than one year, valued at cost, which approximates fair value. Interest earned on short-term investments are included in interest income.

***Fixed Assets***

Fixed assets are stated at cost. Equipment held under capital leases is stated at the lower of present value of minimum lease payments at the inception of the leases or its fair value. Advances paid towards acquisition of fixed assets and the cost of fixed assets not yet placed in service before the end of the period are classified as construction in progress.

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable through an assessment of the estimated future undiscounted cash flows related to such assets. In the event that assets are found to be carried at amounts that are in excess of estimated undiscounted future cash flows, the carrying value of the related asset or group of assets is reduced to a level commensurate with fair value based on a discounted cash flow analysis.

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