

ExlService Holdings, Inc.
Form 10-Q
May 03, 2013
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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, 2013

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
incorporation or organization)

82-0572194
(I.R.S. Employer
Identification No.)

280 PARK AVENUE, 38TH FLOOR, NEW YORK,

NEW YORK
(Address of principal executive offices)

10017
(Zip code)

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of April 30, 2013, there were 32,628,516 shares of the registrant's common stock outstanding (excluding 349,280 shares held in treasury and 4,834 shares of restricted stock), par value \$0.001 per share.

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

	March 31, 2013 (Unaudited)	December 31, 2012 (Recasted)
Assets		
Current assets:		
Cash and cash equivalents	\$ 102,307	\$ 103,037
Short-term investments	6,263	6,137
Restricted cash	757	573
Accounts receivable, net	76,612	73,729
Prepaid expenses	5,377	5,072
Deferred tax assets, net	5,111	7,460
Advance income tax, net	4,486	4,317
Other current assets	9,764	7,065
Total current assets	210,677	207,390
Fixed assets, net	38,973	39,356
Restricted cash	3,850	3,752
Deferred tax assets, net	14,249	14,123
Intangible assets, net	39,118	40,711
Goodwill	110,055	109,662
Other assets	20,930	20,860
Total assets	\$ 437,852	\$ 435,854
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 3,322	\$ 3,604
Deferred revenue	7,640	7,922
Accrued employee cost	17,596	29,393
Accrued expenses and other current liabilities	27,965	31,737
Current portion of capital lease obligations	1,616	1,685
Total current liabilities	58,139	74,341
Capital lease obligations, less current portion	2,399	2,679
Non-current liabilities	13,764	14,317
Total liabilities	74,302	91,337
Commitments and contingencies (See Note 15)		
Preferred stock, \$0.001 par value; 15,000,000 shares authorized, none issued		

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Stockholders' equity:

Common stock, \$0.001 par value; 100,000,000 shares authorized, 32,971,996 shares issued and 32,622,716 shares outstanding as of March 31, 2013 and 32,540,082 shares issued and 32,203,820 shares outstanding as of December 31, 2012	33	33
Additional paid-in-capital	200,813	195,248
Retained earnings	198,644	188,882
Accumulated other comprehensive loss	(32,553)	(36,647)
Total stockholders' equity including shares held in treasury	366,937	347,516
Less: 349,280 shares as of March 31, 2013 and 336,262 shares as of December 31, 2012, held in treasury, at cost	(3,413)	(3,024)
ExlService Holdings, Inc. stockholders' equity	363,524	344,492
Non-controlling interest	26	25
Total stockholders' equity	363,550	344,517
Total liabilities and stockholders' equity	\$ 437,852	\$ 435,854

See accompanying notes.

Table of Contents**EXLSERVICE HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)****(In thousands, except share and per share amounts)**

	Three months ended March 31,	
	2013	2012
Revenues	\$ 116,006	\$ 104,608
Cost of revenues (exclusive of depreciation and amortization)	72,913	66,672
Gross profit	43,093	37,936
Operating expenses:		
General and administrative expenses	15,045	13,347
Selling and marketing expenses	9,755	7,799
Depreciation and amortization	6,512	6,359
Total operating expenses	31,312	27,505
Income from operations	11,781	10,431
Other income/(expense):		
Foreign exchange (loss)/gain	(49)	1,058
Interest and other income, net	1,027	447
Income before income taxes	12,759	11,936
Income tax provision	2,997	3,020
Net income	\$ 9,762	\$ 8,916
Earnings per share:		
Basic	\$ 0.30	\$ 0.28
Diluted	\$ 0.29	\$ 0.27
Weighted-average number of shares used in computing earnings per share:		
Basic	32,521,481	31,445,592
Diluted	33,719,794	32,783,855

See accompanying notes.

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

	Three months ended March 31,	
	2013	2012
Net income	\$ 9,762	\$ 8,916
Other comprehensive income:		
Unrealized gain on effective cash flow hedges, net of taxes \$626 and \$2,100	1,447	6,209
Foreign currency translation adjustment	1,691	6,146
Reclassification adjustments		
Realized loss on cash flow hedges, net of taxes \$428 and \$104 ⁽¹⁾	926	277
Retirement benefits, net of taxes \$8 and \$7 ⁽²⁾	30	26
Total other comprehensive income	4,094	12,658
Total comprehensive income	\$ 13,856	\$ 21,574

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

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

See accompanying notes.

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

	Three months ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 9,762	\$ 8,916
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,512	6,359
Stock-based compensation expense	3,645	2,743
Amortization of deferred financing cost	38	38
Non-employee stock options		32
Unrealized foreign exchange loss	958	1,711
Deferred income taxes	1,191	954
Non-controlling interest	1	
Change in operating assets and liabilities:		
Restricted cash	(239)	108
Accounts receivable	(3,062)	(2,839)
Prepaid expenses and other current assets	(1,926)	(2,292)
Accounts payable	(367)	569
Deferred revenue	(265)	21
Accrued employee cost	(11,192)	(13,229)
Accrued expenses and other liabilities	1,071	883
Advance income tax, net	(141)	817
Other assets	636	(422)
Net cash provided by operating activities	6,622	4,369
Cash flows from investing activities:		
Purchase of fixed assets	(6,610)	(9,299)
Business acquisition	(1,183)	
Purchase of short-term investments		