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

FORM 8-K/A
(Amendment No.1)

CURRENT REPORT

Pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934
Date of Report (Date of earliest event reported): July 1, 2018

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

Delaware	**001-33089**	**82-0572194**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

280 Park Avenue, 38th Floor **New York, New York 10017** (Address of principal executive offices)	**10017** (Zip code)

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

NOT APPLICABLE
(Former name or address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the obligation of the registrant under any of the following provisions:

o Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter)

o Emerging growth company

o 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

Item 2.01. Completion of Acquisition or Disposition of Assets.

On July 2, 2018, ExlService Holdings, Inc. (the "Company") filed a Current Report on Form 8-K (the "Initial Form 8-K") with the Securities and Exchange Commission (the "SEC") reporting that on July 1, 2018, through its wholly owned subsidiary ExlService.com, LLC ("Buyer") and Buyer's wholly owned subsidiary ExlService Cayman Merger Sub, completed the acquisition of SCIOinspire Holdings Inc. ("SCIO") pursuant to its previously announced Agreement of Merger dated April 28, 2018.

This Current Report on Form 8-K/A is being filed to amend the Initial Form 8-K to provide the financial statements and pro forma financial information described in Item 9.01 below which were not previously filed with the Initial Form 8-K, and which are permitted to be filed by amendment not later than 71 calendar days after the date the Initial Form 8-K was required to be filed with the SEC. Except as otherwise noted, all other information in the initial Form 8-K remains unchanged.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of a Business Acquired

The audited consolidated financial statements of SCIO for the year ended, and as of, December 31, 2017 (together with the accompanying notes thereto and the related Independent Auditors' Report) and unaudited consolidated financial statements for the six months ended, and as of, June 30, 2018 (together with the accompanying notes thereto) are attached as Exhibit 99.1 and Exhibit 99.2, respectively, to this Form 8-K/A and incorporated herein by reference.

(b) Pro Forma Financial Information

The unaudited pro forma condensed combined financial information related to the acquisition is attached as Exhibit 99.3 to this Form 8-K/A and incorporated herein by reference.

The pro forma financial statements are presented for informational purposes only and do not purport to represent what the Company's results of operations or financial position would have been had the transactions reflected occurred on the dates indicated or to project the Company's financial position as of any future date or the Company's results of operations for any future period.

(c) None

(d) Exhibits

Exhibit No.	Description
23.1	Consent of KPMG
99.1	Audited consolidated financial statements of SCIO for the year ended, and as of, December 31, 2017.
99.2	Unaudited consolidated financial statements of SCIO for the six months ended, and as of, June 30, 2018.
99.3	Unaudited pro forma condensed combined financial information.

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.

EXLSERVICE HOLDINGS, INC.
(Registrant)

Date: September 07, 2018	By:	/s/ Ajay Ayyappan
	Name:	Ajay Ayyappan
	Title:	Deputy General Counsel and Corporate Secretary

Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the registration statements (No. 333-179098) on Form S-3 and (Nos. 333-139211; 333-157076; 333-206022; 333-226527) on Form S-8 of ExlService Holdings, Inc. of our report dated June 28, 2018, with respect to the consolidated balance sheets of SCIOinspire Holdings, Inc. as of December 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive income/(loss), changes in stockholders' equity, and cash flows for the years then ended, which report appears in the Form 8-K/A of ExlService Holdings, Inc. dated September 07, 2018.

/s/ KPMG

Gurugram, India
September 07, 2018

SCIOinspire Holdings, Inc.
and Subsidiaries

Consolidated Financial Statements
December 31, 2017

SCIOinspire Holdings, Inc. and Subsidiaries
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December 31, 2017

Independent Auditors' Report

The Board of Directors
SCIOinspire Holdings, Inc.
Cayman Islands

We have audited the accompanying consolidated financial statements of SCIOinspire Holdings, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SCIOinspire Holdings, Inc. and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

/s/ KPMG

Gurugram, India

June 28, 2018

SCIOinspire Holdings, Inc. and subsidiaries

Consolidated Balance Sheets

December 31, 2017 and 2016

(All amounts in United States Dollars except share data and as otherwise stated)

	As at December 31, 2017	As at December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents (Note 6)	6,088,890	13,655,743
Cash received on behalf of customers	2,301,863	1,770,569
Trade accounts receivable, less allowance for doubtful accounts of $200,000 in 2017 and Nil in 2016 (Note 7)	6,667,643	6,270,897
Unbilled revenue	9,182,623	3,549,754
Income tax receivable	3,018,289	1,335,610
Other current assets (Note 8)	1,340,727	989,030
Total current assets	**28,600,035**	**27,571,603**
Property and equipment, net (Note 10)	7,593,295	5,535,017
Intangible assets, net (Note 11)	2,890,715	3,894,923
Goodwill (Note 12)	17,511,162	22,089,837
Deferred tax assets (Note 9)	148,096	83,154
Other assets (Note 8)	1,618,233	1,899,048
Total assets	**58,361,536**	**61,073,582**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current instalments of long-term debt (Note 17)	1,980,000	1,980,000
Trade accounts payable	416,252	388,734
Income tax payable	86,904	—
Accrued and other current liabilities (Note 16)	7,081,095	7,929,938
Subrogation services obligations	2,310,721	1,788,382
Overpayment services obligations	10,593	17,699
Total current liabilities	**11,885,565**	**12,104,753**
Long term-debt, excluding current installments (Note 17)	10,223,249	12,203,249
Liability for employee benefits	89,637	29,170
Other liabilities	239,429	299,286
Deferred tax liabilities (Note 9)	478,122	137,268
Total liabilities	**22,916,002**	**24,773,726**

SCIOinspire Holdings, Inc. and subsidiaries

Consolidated Balance Sheets

December 31, 2017 and 2016

(All amounts in United States Dollars except share data and as otherwise stated)

	As at December 31, 2017	As at December 31, 2016
Stockholders' equity (Note 13 and 14):		
Common stock, $0.001 par value;	14,617	14,500
88,790,205 shares authorized as at December 31, 2017 and December 31, 2016. 14,616,677 shares issued and outstanding as at December 31, 2017 and 14,499,598 shares issued and outstanding as at December 31, 2016		
Series A Preference shares, $0.001 par value;	40,019	40,019
40,119,015 preference shares authorized as at December 31, 2017 and December 31, 2016; 40,019,015 shares issued and outstanding as at December 31, 2017 and December 31, 2016 (liquidation preference of $10,004,754 over common stock, as at December 31, 2017 and 2016)		
Series B1 Preference shares, $0.001 par value;	6,636	6,636
6,636,375 preference shares authorized and issued as at December 31, 2017 and December 31, 2016; (liquidation preference of $2,183,000 over common stock, as at December 31, 2017 and 2016)		
Series B2 Preference shares, $0.001 par value;	7,441	7,441
7,440,868 preference shares authorized and issued as at December 31, 2017 and December 31, 2016 (liquidation preference of $3,717,000 over common stock as at December 31, 2017 and 2016)		
Series C Preference shares, $0.001 par value;	9,434	9,434
9,433,962 preference shares authorized and issued as at December 31, 2017 and December 31,2016 (liquidation preference of $7,500,000 over common stock as at December 31, 2017 and 2016)		
Series C1 Preference shares, $0.001 par value;		
903,616 preference shares authorized and issued as at December 31, 2017 and December 31, 2016 (liquidation preference of $2,000,000 over common stock as at December 31, 2017 and 2016)	904	904
Series D Preference shares, $0.001 par value;		
1,779,180 preference shares authorized and issued as at December 31, 2017 and 1,779,180 as at December 31, 2016 (liquidation preference of $4,000,000 over common stock as at December 31, 2017 and 2016)	1,779	1,779
Additional paid-in capital	32,096,370	31,977,312
Retained earnings	3,749,515	4,886,318
Accumulated other comprehensive loss	(481,181)	(644,487)
Total stockholders' equity	**35,445,534**	**36,299,856**
Commitments and contingencies (Note 20)		
Total liabilities and stockholders' equity	**58,361,536**	**61,073,582**

See accompanying Notes to consolidated financial statements.

SCIOinspire Holdings, Inc. and subsidiaries

Consolidated Statements of Operations and Comprehensive Income (Loss)

Years ended December 31, 2017 and 2016

(All amounts in United States Dollars except share data and as otherwise stated)

	Year ended December 31, 2017	Year ended December 31, 2016
Revenue		
Service income	71,847,604	66,873,737
Other income	14,510	197,818
Total revenue	**71,862,114**	**67,071,555**
Salaries and employee benefits	47,590,854	47,293,645
Other expenses	15,170,763	13,488,125
Depreciation and amortization	4,276,722	3,804,304
Compensation to selling shareholders	337,572	1,126,166
Acquisition related cost (Transaction cost)	—	545,946
Goodwill impairment loss (Note 12)	4,578,675	—
Interest expense	871,103	1,068,302
Total expenses	**72,825,689**	**67,326,488**
Loss before income taxes	**(963,575)**	**(254,933)**
Income tax expense (Note 9)	173,228	46,592
Net loss	**(1,136,803)**	**(301,525)**
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments	163,306	(297,178)
Other comprehensive income/(loss)	**163,306**	**(297,178)**
Net comprehensive loss	**(973,497)**	**(598,703)**

See accompanying Notes to consolidated financial statements.

SCIOinspire Holdings, Inc. and subsidiaries

Statement of Changes in Stockholders' Equity

Years ended 31 December 2017 and 2016

(All amounts in United States Dollars except share data and as otherwise stated)

	Series A Preference Shares		Series B1 Preference Shares		Series B2 Preference Shares		Series C Preference Shares		Series C1 Preference Shares		Series D Preference Shares		Common Stock		Additional paid in capital	Accumulated other comprehensive (loss)	Retained earnings	Total stockholders' equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at January 01, 2016	**40,019,015**	**40,019**	**6,636,375**	**6,636**	**7,440,868**	**7,441**	**9,433,962**	**9,434**	**903,616**	**904**	**—**	**—**	**13,278,810**	**13,280**	**25,406,817**	**(347,309)**	**5,187,843**	**30,325,064**
Issue of common stock	—	—	—	—	—	—							1,033,470	1,033	2,498,967	—	—	2,500,000
Issue of preference shares (net of $ 34,263 issue cost)	—	—	—	—	—	—	—	—	—	—	1,779,180	1,779	—	—	3,963,946	—	—	3,965,725
Exercise of stock option	—	—	—	—	—	—	—	—	—	—	—	—	187,318	187	62,978	—	—	63,165
Stock compensation expense	—	—	—	—	—	—	—	—	—	—	—	—	—	—	44,604	—	—	44,604
Loss for the year	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(301,525)	(301,525)
Foreign currency translation loss net of tax $ Nil	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(297,178)	—	(297,178)
Comprehensive loss	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**					**—**	**—**	**—**	**—**	**—**	**—**
Balance at December 31, 2016	**40,019,015**	**40,019**	**6,636,375**	**6,636**	**7,440,868**	**7,441**	**9,433,962**	**9,434**	**903,616**	**904**	**1,779,180**	**1,779**	**14,499,598**	**14,500**	**31,977,312**	**(644,487)**	**4,886,318**	**36,299,856**
Balance at January 01, 2017	**40,019,015**	**40,019**	**6,636,375**	**6,636**	**7,440,868**	**7,441**	**9,433,962**	**9,434**	**903,616**	**904**	**1,779,180**	**1,779**	**14,499,598**	**14,500**	**31,977,312**	**(644,487)**	**4,886,318**	**36,299,856**
Issue of common stock	—	—	—	—	—	—							23,862	24	53,623	—	—	53,647
Issue of preference shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Exercise of stock option	—	—	—	—	—	—	—	—	—	—	—	—	93,217	93	24,379	—	—	24,472
Stock compensation expense	—	—	—	—	—	—	—	—	—	—	—	—	—	—	41,056	—	—	41,056
Loss for the year	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,136,803)	(1,136,803)
Foreign currency translation gain net of tax $ Nil	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	163,306	—	163,306
Comprehensive loss	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**					**—**	**—**	**—**	**—**	**—**	**—**
Balance at December 31, 2017	**40,019,015**	**40,019**	**6,636,375**	**6,636**	**7,440,868**	**7,441**	**9,433,962**	**9,434**	**903,616**	**904**	**1,779,180**	**1,779**	**14,616,677**	**14,617**	**32,096,370**	**(481,181)**	**3,749,515**	**35,445,534**

See accompanying Notes to consolidated financial statements.

SCIOinspire Holdings, Inc. and subsidiaries

Consolidated Statement of Cash Flows

Years ended December 31, 2017 and 2016

(All amounts in United States Dollars except share data and as otherwise stated)

	Year ended December 31, 2017	Year ended December 31, 2016
Cash flows provided by operating activities:		
Net loss	(1,136,803)	(301,525)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	3,272,513	2,800,761
Amortization	1,004,209	1,003,543
Impairment loss	4,578,675	—
Deferred income tax expense/(benefit)	283,154	(425,507)
Allowance for doubtful accounts	200,000	—
Stock compensation expense	41,056	44,604
Changes in operating assets and liabilities		
Accounts receivable	(501,161)	1,301,233
Unbilled revenue	(5,632,869)	(685,872)
Other assets	(3,540,983)	(2,799,663)
Income taxes receivable (payable)	1,769,583	355,836
Accounts payable	4,640	377,212
Accrued and other liabilities	523,849	541,032
Cash received on behalf of customers	(531,294)	1,252,937
Subrogation services obligations	522,339	(1,239,890)
Overpayment services obligations	(7,106)	7,106
Net cash (used in) / provided by operating activities	**849,802**	**2,231,807**
Cash flows from investing activities:		
Acquisition of business, net of cash	(1,263,594)	(7,045,719)
Capital expenditures	(5,272,404)	(2,354,565)
Net cash used in investing activities	**(6,535,998)**	**(9,400,284)**
Cash flows from financing activities:		
Proceeds from long-term debt	—	5,190,000
Principal payments on long-term debt	(1,980,000)	(2,446,751)
Proceeds from issuance of stock	—	3,965,725
Proceeds from exercise of options	24,472	63,165
Net cash (used in) / provided by financing activities	**(1,955,528)**	**6,772,139**
Effect of exchange rate changes on cash and cash equivalents	74,871	(87,065)
Net change in cash and cash equivalents	**(7,566,853)**	**(483,403)**
Cash and cash equivalents at beginning of year	13,655,743	14,139,146
Cash and cash equivalents at end of year	**6,088,890**	**13,655,743**
Supplement disclosures of cash flow information:		
Cash paid for income taxes	1,491,255	1,363,721
Cash paid during the year for interest	856,052	909,284
Non cash investing activities:		
Issuance of common stock for business acquisition	53,647	2,500,000

See accompanying Notes to consolidated financial statements.

1. Description of Business

SCIOinspire Holdings Inc. ("the Company") was incorporated under the law of Cayman Islands on July 30, 2007, by a team of professionals having expertise in the Healthcare industry, as an exempted company with limited liability. The Company through its subsidiaries ("the Group") offer Cost containment / Payment Integrity services, Facility and claims audit, Analytics and Data Management, Healthcare Analytics, Actuarial Consulting, Risk Adjustment, Software – Hosting / License, Business Process Outsourcing services, Commercial Effectiveness etc., to companies in the Healthcare and Pharmaceutical industry.

On January 20, 2016 the Group acquired assets and assumed liabilities of Clear Vision Information Systems, Inc. ("Clear Vision"). These assets and liabilities constitute a business and have been consolidated into the books of the Group. Refer Note 4.

2. Summary of Significant Accounting Policies

Basis of preparation

The accompanying consolidated financial statements include the accounts of the SCIOinspire Holdings Inc. and its wholly owned subsidiaries – SCIOinspire Corp, SCIOinspire Consulting Services (India) Private Limited, SCIO Health Analytics (UK) Limited and Data Intelligence Limited, and have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP).

Use of estimates

The preparation of 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, the carrying amount of intangible assets and goodwill, allowances for doubtful accounts, liability for appeals, deferred tax asset valuation allowances, provisions and share based compensation, income tax uncertainties and other contingencies.

Principles of consolidation

All significant inter-company balances and transactions have been eliminated in consolidation. The Company consolidates entities in which it has a controlling financial interest based on either the variable interest entity (VIE) or voting interest model. The Company currently has no involvement with variable interest entities. The Company accounts for investments over which it has significant influence but not a controlling financial interest using the equity method of accounting.

Reclassifications

The Company has reclassified certain amounts relating to its prior period results to conform to its current period presentation. These reclassifications have not changed the results of operations of prior periods.

2. Summary of Significant Accounting Policies (continued)

Controlling interest in businesses under common control

The Company accounts for transactions between entities under common control, by initially recognizing the assets and liabilities transferred at the date of acquisition at the carrying values. Refer Note 18.

Functional currency

The consolidated financial statements are reported in United States Dollar. The functional currency of the Company and its subsidiaries is United States Dollars, except that of the Indian subsidiary whose functional currency is Indian Rupees and for SCIO Health Analytics (UK) Ltd. The functional currency is Pound Sterling. The translation of the Indian Rupee and Pound Sterling into United States Dollars is performed for balance sheet accounts using the exchange rates in effect as of the balance sheet date and for the statement of operations using the average exchange rate prevailing during the year. The gains or losses resulting from such translation are reported under accumulated other comprehensive income (loss), net, as a separate component of equity.

Foreign currency denominated monetary assets and monetary liabilities at the year-end are translated at the year-end exchange rate. Exchange rate differences resulting from foreign exchange transactions settled during the year, including year-end translation of monetary assets and liabilities are recognized in the consolidated statement of operations.

Cash and cash equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of cash and deposits with banks with an initial term of less than three months, which are unrestricted as to its use.

Cash received on behalf of customers

As part of its subrogation services, the Company receives cash payments on behalf of its clients, which the Company is obligated to remit to various clients after recovering its fees and expenses.

Trade accounts receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by operating activities in the statements of cash flows. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and the Company’s customers’ financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. The Company reviews its allowance for doubtful accounts periodically. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers. Allowances for doubtful accounts for the year 2017 is $200,000 (2016: Nil).

2. Summary of Significant Accounting Policies (continued)

Revenue recognition

Revenue from audit and recovery services is derived from contingent and non-contingent fee arrangements.

Revenues from services having contingent fee arrangements are recognized as per the terms of the contract with the customers, when the uncertainty over ultimate collection is resolved. The uncertainty is considered as resolved when the claims are sent to/ accepted by the customer for recovery/ offset against future claim payments and its collectability is reasonably assured within a reasonable time of rendering the service.

Revenues from services having non-contingent fee arrangements are substantially provided on a time-and-material basis and are recognized based on the contractual terms as the services are performed.

Direct and incremental costs pertaining to such services are deferred until the revenue recognition criteria are met. The costs deferred are limited to the extent of future contractual revenues for work completed and recoverability established as at the Balance sheet date. These deferred cost are included as part of the other assets as and when applicable.

Revenue from annual maintenance contracts are recognized ratably over the period in which services are rendered. Revenues from services which are substantially provided on a time-and-material basis are recognized based on the contractual terms as the services are performed.

Unbilled revenue represent earnings in excess of billings as at the end of the reporting period.

Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenues in the consolidated statements of operations.

The Company has deferred the revenue and costs attributable to certain process transition activities with respect to its customers where such activities do not represent the culmination of a separate earnings process. Such revenue and costs are subsequently recognized ratably over the period in which the related services are performed. Further, the deferred costs are limited to the amount of the deferred revenues.

In certain contingency based business, providers (third parties) have the right to appeal a claim and may pursue additional appeals if the initial appeal is found in favor of Company’s customers. For revenue realized from such contingency business, the Company accrues an estimated liability based on the amount of fees which are subject to appeal and which we estimate are probable of being returned to providers following a successful appeal. This estimated liability for appeals is an offset to revenue on our consolidated statements of operations. The estimates are based on historical experience with appeals. The estimated liability of appeals of USD 1,698,026 as at December 31, 2017 and USD 1,800,000 as at December 31, 2016 represent our best estimate of the potential amount of repayments related to appeals of claims for which fees were previously collected and recognized as revenue. The estimates are based on historical experience with appeals. To the extent the amount to be returned to providers following a successful appeal exceeds the amount accrued, revenue in the applicable period would be reduced by the amount of the excess. The inability to correctly estimate the estimated liabilities could adversely affect our revenue in future periods.

2. *Summary of Significant Accounting Policies (continued)*

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Upon the sale or retirement of property and equipment, the accounts are relieved of the cost and the related accumulated depreciation, with any resulting gain or loss included in the statement of operations. Plant and equipment under finance leases are stated at the present value of minimum lease payments.

Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful life of machinery and equipment ranges from 3 to 5 years, furniture and fixtures 5 years. Leasehold improvements are depreciated over the lease period/ estimated useful lives which is shorter. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditure for maintenance and repairs are charged to expense as incurred.

Capitalized software costs

Once the technology feasibility is established as per ASC 985-20, the Company capitalizes costs associated with the acquisition or development of major software for internal and external use in the consolidated balance sheet and amortizes the assets over the expected life of the software, generally between one and seven years. The Company only capitalizes subsequent additions, modifications or upgrades to internal-use software to the extent that such changes allow the software to perform a task it previously did not perform. The Company expenses software maintenance and training costs as incurred. Capitalized software costs have been disclosed as part of property and equipment. The Company has capitalized internally-developed software costs of $3,775,827 for the year ended December 31, 2017 (2016: Nil).

Business combinations, goodwill and intangible assets

The Company accounts for its business combinations by recognizing the identifiable tangible and intangible assets and liabilities assumed, and any non-controlling interest in the acquired business, measured at their acquisition date fair values. All assets and liabilities of the acquired businesses, including goodwill, are assigned to reporting units. The contingent consideration arrangements are fair valued at the acquisition date and included on that basis in the purchase price consideration and transaction costs are expensed as incurred.

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Indefinite-lived intangible assets are assets that are not amortized because there is no foreseeable limit to cash flows generated from them. All assets and liabilities of an acquired business including goodwill are assigned to reporting units.

2. Summary of Significant Accounting Policies (continued)

Goodwill is not amortized but is tested for impairment at least on an annual basis on December 31, based on a number of factors, including operating results, business plans and future cash flows. The Company performs an assessment of qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Based on the assessment of events or circumstances, the Company performs a quantitative assessment of goodwill impairment if it determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, based on the quantitative impairment analysis, the carrying value of the goodwill of a reporting unit exceeds the fair value of such goodwill, an impairment loss is recognized in an amount equal to the excess. If it is more likely than not that the asset is impaired, the Company records the amount that the carrying value exceeds the fair value as an impairment loss. The Company performed its annual impairment review of all its reporting units in the current year; based on this assessment, the Company has recorded goodwill impairment loss of USD 4,578,675 (2016: Nil) relating its reporting unit - SCIO Health Analytics (UK) Limited.

Intangible assets acquired individually, with a group of other assets or in a business combination are carried at cost less accumulated amortization. The Company's intangible assets include customer contracts and non-compete and are amortized on a straight line basis over their estimated useful life of 4 to 10 years.

Impairment of long-lived assets and finite life intangibles

Long-lived assets, such as property and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third party independent appraisals, as considered necessary.

Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigations, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Income taxes

Income taxes are accounted under the asset and liability method. The current charge for income tax expense is calculated in accordance with the relevant tax regulations applicable to each entity.

2. Summary of Significant Accounting Policies (continued)

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company recognizes interest related to unrecognized tax benefits in interest expense. The Company accounts for residual income tax effects in Accumulated other comprehensive income due to a change in tax law or a change in judgment about realization of a valuation allowance, if any, using the portfolio method and only releases residual amounts when the entire portfolio is liquidated.

Stock-based Compensation

The Company recognizes all stock-based compensation as a cost in the consolidated financial statements. Equity-classified awards are measured at the grant date fair value of the award. The Company has recorded compensation expense based on estimated grant date fair value using the Black-Scholes option-pricing model and estimates the number of forfeitures expected to occur.

Stock based compensation benefits have been issued by the SCIOinspire Holdings Inc., the holding company since 2008.

Operating leases

The Company leases its office space pursuant to long-term, non-cancellable lease agreements, which have been accounted for as operating leases. Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. Accordingly, rent expense incurred in excess of rent paid is reflected as deferred rent.

Retirement benefits to employees

a) Defined contribution plan

The Company does not have any pension or post retirement plans for any of its employees in US other than the 401(k) Plan administered by Trans America Financial Life Insurance Company. The net periodic costs are recognized as employees render the services necessary to earn the postretirement benefits.

2. Summary of Significant Accounting Policies (continued)

In India, the employees receive benefits from a provident fund, where the employer and employees each make monthly contributions to the plan at a pre-determined rate to the Regional Provident Fund Commissioner. Employer’s contribution to the fund is charged as an expense to the statement of operations.

b) Defined benefit plan

In accordance with the Payment of Gratuity Act, 1972, applicable for Indian companies, the Company provides for a lump sum payment to eligible employees, at retirement or termination of employment based on the last drawn salary and years of employment with the Company. The gratuity fund is managed by third party fund managers. Current service costs for defined benefit plans are accrued in the period to which they relate. The liability in respect of defined benefit plans is calculated annually by the Company. The Company records annual amounts relating to its defined benefit plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases and turnover rates. The Company reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The Company’s obligation in respect of the gratuity plan, which is a defined benefit plan, is provided for based on actuarial valuation.

Fair value measurement

The Company uses valuation approaches that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels in accordance with ASU 2011-04 (see note 5 to the consolidated financial statements):

a) Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

b) Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

c) Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

2. Summary of Significant Accounting Policies (continued)

Recently adopted accounting standards

The following recently released accounting standard has been adopted by the Company and did not have a material impact on the Company's consolidated results of operations, cash flows, financial position or disclosures:

Effective January 1, 2017, the Company has adopted FASB ASU 2015-17 Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"). The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The guidance however does not change the existing guidance that prohibits offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The Company has applied the new guidance retrospectively for all deferred tax assets and liabilities and accordingly, the comparative balance sheet amounts of prior periods have been retrospectively reclassified.

Recently issued accounting standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires a company to recognize revenue when the company transfers control of promised goods and services to the customer. Revenue is recognized in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. A company also is required to disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB also has issued several amendments to the standard, which are intended to promote a more consistent interpretation and application of the principles outlined in the standard.

Companies are permitted to adopt the standard using a retrospective transition method (i.e. restate all prior periods presented) or a cumulative effect method (i.e. recognize the cumulative effect of initially applying the guidance at the date of initial application with no restatement of prior periods). However, both methods allow companies to elect certain practical expedients on transition that will help to simplify how a company restates its contracts. The standard is effective for the Company for annual periods in fiscal years beginning after December 15, 2018. We are currently evaluating the effect that the updated standard will have on our Consolidated Financial Statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a right of use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The new standard is effective for the Company on January 1, 2020, with early adoption permitted.

2. *Summary of Significant Accounting Policies (continued)*

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 Group is currently evaluating the effects the above standards will have on its consolidated financial statements and related disclosures.

3. Significant risks and uncertainties including business and credit concentrations

Financial instruments that potentially subject the Company to a concentration of credit risk consist of bank balances, accounts receivable and unbilled revenue. By their nature, all such financial instruments involve risk including credit risk of non-performance by counter parties. In the management’s opinion, as of December 31, 2017, there was no significant risk of loss in the event of non-performance by the counter parties to these financial instruments other than the amounts already provided for in the consolidated financial statements.

Accounts receivable are uncollateralized customer obligations due under normal trade terms. The carrying amount of receivables is reduced by a valuation allowance that reflects management’s best estimate of the amounts that will not be collected.

For the year ended December, 31 2017 one of the customers provided 34% of revenue individually, while for the year ended December, 31, 2016 one of the customers provided 43% of revenue individually. For the year ended December 31, 2017 two customers constituted around 36% of the total account receivable and two customers around 62% for the year ended December 31, 2016.

4. Acquisition of Clear Vision Information Systems, Inc. (‘Clear Vision’)

On January 20, 2016 the Group acquired certain assets and assumed certain liabilities of Clear Vision. The aggregate purchase consideration was $ 10,404,178 out of which $ 185,373 was payable as at December 31, 2017 (2016: $ 959,198). Together with the acquisition, the Company retained certain employees of Clear Vision’s business. With this transaction, the Company entered into the business of risk-adjustment software and data analytics, expanding its range of data management, analytics and software licensing/hosting services to the healthcare industry. Acquisition related costs amounting to $ 545,946 have been included in Acquisition related cost (Transaction cost) for the year ended December 31, 2016. The goodwill of $ 4,532,958 arising out of the acquisition has been recorded in the books and is deductible for tax purposes. The goodwill represents primarily the acquired expertise, operating synergies and other benefits expected to result from combining the acquired operations with our existing operations.

(All amounts in United States Dollars except share data and as otherwise stated)

Contingent payments

As per the asset purchase agreement, the selling shareholders were eligible for a contingent earn-out consideration on achieving of certain performance conditions over the period beginning from the date of acquisition up to December 31, 2016. The total maximum contingent consideration as per the agreement was $ 3,000,000. The actual undiscounted earn-out consideration determined amounted to $328,111. Out of this, $268,236 was considered as part of the purchase consideration. The balance amount of $59,875 was contingent upon certain employees remaining in employment after the acquisition, hence, this was considered as a compensation for post-combination services, in accordance with ASC 805.

The fair value of the contingent consideration arrangement was measured by applying the income valuation approach. That measure is based on significant inputs that are not observable in the market, which ASC Section 820-10-35 refers to as Level 3 inputs (refer fair value hierarchy in Note 2). Key assumptions included a discount rate of 15.8%.

The following table summarizes the consideration paid for Clear Vision and the amounts of estimated fair value of the assets acquired and liabilities assumed at the acquisition date:

Consideration:		
Cash	$	7,467,640
Fair value of consideration payable in shares		2,500,000
Fair value of promissory note issued		436,538
Fair value of total consideration transferred	$	**10,404,178**
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Accounts receivable		776,665
Current assets		13,463
Software		2,732,258
Customer relationships		2,513,408
Non-compete		20,000
Other current liabilities		(184,574)
Total identifiable net assets assumed	**$**	**5,871,220**
Goodwill		4,532,958
Total	**$**	**10,404,178**

(All amounts in United States Dollars except share data and as otherwise stated)

5. Fair value measurements

Fair value of financial instruments

The following table presents the carrying amounts and estimated fair value of the Company's financial instruments at December 31, 2017 and December 31, 2016. Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

	As at December 31, 2017		As at December 31, 2016	
	Carrying Amount	Fair value	Carrying Amount	Fair value
Financial assets:				
Cash and cash equivalents	6,088,890	6,088,890	13,655,743	13,655,743
Cash received on behalf of customers	2,301,863	2,301,863	1,770,569	1,770,569
Trade accounts receivable	6,667,643	6,667,643	6,270,897	6,270,897
Unbilled revenue	9,182,623	9,182,623	3,549,754	3,549,754
Other assets	411,517	411,517	390,653	390,653
Financial liabilities:				
Long-term debt	12,203,249	12,203,249	14,183,249	14,183,249
Trade accounts payable	416,252	416,252	388,734	388,734
Accrued and other current liabilities	2,044,321	2,044,321	3,044,354	3,044,354
Subrogation services obligations	2,310,721	2,310,721	1,788,382	1,788,382
Overpayment services obligations	10,593	10,593	17,699	17,699

The fair values of the financial instruments shown in the above table as of December 31, 2017 and 2016 represent the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Company's own judgments about the assumptions that market participants would use in pricing the asset or liability.

Those judgments are developed by the Company based on the best information available in the circumstances, including expected cash flows and appropriately risk adjusted discount rates, available observable and unobservable inputs.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Cash and cash equivalents, cash received on behalf of customers, trade accounts receivable, unbilled revenue, other assets, long-term debt, trade accounts payable, accrued and other current liabilities, subrogation services obligations, overpayment services obligations and other liabilities: The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

(All amounts in United States Dollars except share data and as otherwise stated)

- Non-financial assets and liabilities not included above: The fair value of goodwill is determined by estimating the expected present value of future cash flows without reference to observable market transactions.

Accrued and other current liabilities include accrued earn-out consideration payable to selling shareholders. The following table provides a roll-forward of the fair value of earn-out consideration categorized as level 3 in the fair value hierarchy for the years ended December 31, 2017 and 2016:

	As at December 31, 2017	As at December 31, 2016
Opening balance	1,471,631	562,133
Earn-out consideration payable in connection with acquisitions	337,573	7,903,998
Payments made during the year	(1,263,594)	(7,045,719)
Other*	(21,828)	51,219
Closing balance	**523,782**	**1,471,631**

*Includes interest expense and impact of changes in foreign exchange. These are included in interest expense and other expenses respectively, in the consolidated statements of operations and comprehensive income (loss).

6. Cash and cash equivalents

	As at December 31, 2017	As at December 31, 2016
Cash on hand	1,156	1,024
Bank balances	6,087,734	13,654,719
	6,088,890	**13,655,743**

7. Trade accounts receivable

Trade accounts receivable as of December 31, 2017 amounted to $ 6,667,643, net off allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts based on financial condition of the customer and aging of the account receivable. Accounts receivables are not collateralized.

The age profile of accounts receivable is given below:

Period in days	As at December 31, 2017	As at December 31, 2016
0 – 30	5,885,080	5,584,553
31 – 60	487,431	327,495
61 – 90	120,110	121,052
More than 90	375,022	237,797
	6,867,643	**6,270,897**
Less : Allowance for doubtful accounts	(200,000)	—
	6,667,643	**6,270,897**

(All amounts in United States Dollars except share data and as otherwise stated)

8. Other assets

	As at December 31, 2017	As at December 31, 2016
Other current assets		
Prepayments	691,077	444,789
Statutory receivables	201,670	176,784
Other advances	146,301	65,778
Deferred costs	301,679	301,679
	1,340,727	**989,030**
Other assets (non-current)		
Deferred costs	1,206,716	1,508,395
Advances and deposits	411,517	390,653
	1,618,233	**1,899,048**

9. Income taxes

The Company is a Cayman Islands incorporated entity, where the corporate tax rate is nil. The Company's operations are primarily in the U.S. The below disclosures have been made considering the Company's operation in US, India and UK.

(a) Recent tax legislation (United States of America)

In December 2017 the U.S. government enacted comprehensive tax legislation, the Tax Cuts and Jobs Act (the Act), which significantly revises the ongoing U.S. corporate income tax law by lowering the U.S. federal corporate income tax rate from 34% to 21%, implementing a modified territorial tax system, imposing a one-time tax on foreign unremitted earnings and setting limitations on deductibility of certain costs (e.g., interest expense and executive compensation), among other things.

(b) Income taxes

For the years ended December 31, 2017 and 2016, income (loss) before income taxes consists of the following:

	2017	2016
Cayman Islands	(6,049,987)	(1,228,168)
U.S	4,598,253	1,437,451
India	1,035,618	864,670
UK	(547,459)	(1,328,886)
	(963,575)	**(254,933)**

(All amounts in United States Dollars except share data and as otherwise stated)

Total income tax expense (benefit) for the years ended December 31, 2017 and 2016 was as follows:

	Current	Deferred	Total
Year ended December 31, 2017			
U.S. federal	(619,726)	346,320	(273,406)
U.S. state and local	118,157	(5,466)	112,691
India	391,642	(57,699)	333,943
UK	-	-	-
Total	**(109,927)**	**283,155**	**173,228**
Year ended December 31, 2016			
U.S. federal	(161,488)	(262,466)	(423,954)
U.S. state and local	281,539	(120,140)	161,399
India	352,048	(42,901)	309,147
UK	-	-	-
Total	**472,099**	**(425,507)**	**46,592**

(c) Tax rate reconciliation

Income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 34% to pretax book income. The significant reconciling items from the expected income tax expense to the actual income tax expense includes state and local income taxes, change in valuation allowance, R&D research tax credits, changes in tax rate in the U.S. and tax rate differentials of Cayman Islands, UK and India.

(d) Significant components of deferred taxes

Deferred tax assets (liabilities) as at December 31, 2017 and 2016 were as follows:

Particulars	**As at December 31, 2017**	**As at December 31, 2016**
Net operating loss carryforwards	1,929,581	1,633,697
Provision for estimated liabilities	413,040	698,790
Employee related liabilities	286,476	253,727
Imputed interest income	-	408,177
Tax credit carryforwards	853,835	-
Property and equipment	132,824	18,718
Others	236,403	331,566
Gross deferred tax assets	**3,852,159**	**3,344,675**
Less: Valuation allowance	(1,183,620)	(1,266,488)
Total deferred tax assets	**2,668,539**	**2,078,187**
Property and equipment	-	(123,977)
Goodwill and other intangible assets	(398,008)	(613,308)
Unbilled revenue	(2,233,644)	(1,395,015)
Deferred costs	(366,913)	-
Total deferred tax liability	**(2,998,565)**	**(2,132,300)**
Net deferred tax liability	**(330,026)**	**(54,114)**

(All amounts in United States Dollars except share data and as otherwise stated)

Management assessed that there are no uncertain unrecognized tax benefits and that the tax positions taken have met the minimum statutory requirements to avoid payment of penalties.

The change in the total valuation allowance for deferred tax assets as of December 31, 2017 is as follows:

Particulars	**2017**	**2016**
Opening valuation allowance	**1,266,488**	**699,716**
Addition during the year	116,457	566,772
Reduction during the year	(199,325)	-
Closing valuation allowance	**1,183,620**	**1,266,488**

The valuation allowance at December 31, 2017 has been reduced as in the judgment of management, it is more-likely-than-not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income and tax-planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more-likely-than-not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2017. The majority of the Company's deferred tax assets not reduced by valuation allowance are supported by reversing taxable temporary differences. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The Company intends to indefinitely reinvest all of its accumulated and future foreign earnings outside the Cayman Islands. If such earnings were repatriated to Cayman Islands, they would be subject to withholding or dividend distribution taxes. Due to the various methods by which such earnings could be repatriated in the future, the amount of taxes attributable to the undistributed earnings are dependent on circumstances existing if, and when remittance occurs. The amount of such temporary differences totaled $ 15,022,845 as of December 31, 2017. Determination of the amount of any unrecognized deferred income tax liability on this temporary difference is not practicable because of the complexities of the hypothetical calculation.

The Company’s deferred tax assets related to net operating loss carryforwards are expected to expire over various periods. The Company has $ 59,828,916 of state tax NOLs and tax credits of $ 853,835 in the U.S. which will expire on various dates beginning in 2027 and 2025 respectively. The Company also has $ 2,447,324 of carryforward losses and $ 4,253 of tax credits in UK which can be carried forward indefinitely for use against future income.

The Company is subject to the continual examination of its income tax returns by the IRS and other domestic and foreign tax authorities. For U.S, India and UK the earliest years open for examination are fiscal years beginning on or after January 1, 2014, April 1, 2009 and January 1, 2016 respectively.

(All amounts in United States Dollars except share data and as otherwise stated)

10. Property and equipment, net

Property and equipment consist of the following:	As at December 31, 2017	As at December 31, 2016
Machinery and equipment	5,675,491	4,723,927
Furniture and fixtures	723,449	680,756
Leasehold improvements	727,043	727,043
Computer software*	15,185,158	10,761,730
	22,311,141	**16,893,456**
Accumulated depreciation	(14,717,846)	(11,358,439)
	7,593,295	**5,535,017**

*Includes software under development of $1,210,499 as at December 31, 2017 (2016: Nil).

The total depreciation for the years ended December 31, 2017 and 2016 was $3,272,513 and $2,800,761, respectively.

11. Intangible assets, net

Acquired intangible assets, either individually or with a group of other assets or in a business combination, are as follows:

	As at December 31, 2017	As at December 31, 2016
Customer relationship (Hospital Audit Locus Inc.)	3,109,000	3,109,000
Customer relationship/Non-Compete (Clear Vision)	2,533,408	2,533,408
Customer list (Socrates Inc.,)	1,350,000	1,350,000
Customer relationship (SCIO Health Analytics (UK) Limited)	1,081,632	1,081,632
Customer contracts (Solucia division)	50,000	50,000
	8,124,040	**8,124,040**
Accumulated amortization	(5,233,325)	(4,229,117)
	2,890,715	**3,894,923**

Intangible assets subject to amortization	Gross carrying amount	Weighted average amortization period	Accumulated amortization	Net carrying amount
Customer relationships	4,190,632	8 yrs	2,987,522	1,203,110
Customer relationships – Clear Vision	2,513,408	6 yrs	837,803	1,675,605
Customer list	1,350,000	5 yrs	1,350,000	-
Customer contracts	50,000	5 yrs	50,000	-
Non-compete	20,000	5 yrs	8,000	12,000
Total	**8,124,040**		**5,233,325**	**2,890,715**

(All amounts in United States Dollars except share data and as otherwise stated)

Aggregate amortization expense for the years ended December 31, 2017 and 2016 was $1,004,209 and $1,003,543 respectively. Estimated amortization expense for the year 2018 is $1,004,209, for 2019 is $733,801, for 2020 is $733,801 and for 2021 is $418,904.

12. Goodwill

The carrying amount of goodwill is as follows:

Particulars	**As at 31 December 2017**	**As at 31 December 2016**
Acquisition of :		
Hospital Audit Locus, Inc.	5,759,810	5,759,810
Solucia	542,837	542,837
Socrates, Inc.	2,564,467	2,564,467
SCIO Health Analytics (UK) Limited	8,689,765	8,689,765
Clear Vision	4,532,958	4,532,958
Gross closing balance	**22,089,837**	**22,089,837**
Accumulated impairment losses	(4,578,675)	-
Net closing balance	**17,511,162**	**22,089,837**

Goodwill has been allocated to the following reporting units, which represent different business units of the Company, as follows:

Particulars	**As at 31 December 2017**	**As at 31 December 2016**
U.S.	13,400,072	13,400,072
UK	4,111,090	8,689,765
Net closing balance	**17,511,162**	**22,089,837**

Impairment charge:

For the year ended December 31, 2017, in accordance with ASU 2011-08, the Company performed an assessment of qualitative factors to determine whether events or circumstances exist that may lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Based on its assessment, the Company concluded that it is more likely than not that the fair value of its UK reporting unit is less than its carrying amount, primarily due to a decline in planned revenues. Accordingly, the Company performed a quantitative assessment of goodwill impairment for its UK reporting unit, using the income approach based on estimated discounted future cash flows. Based on such quantitative assessment, the Company concluded that goodwill on acquisition of SCIO Health Analytics (UK) Limited was impaired and accordingly, $4,578,675 was recognized as impairment loss for the year ended December 31, 2017 in the statement of operations (2016: Nil).

(All amounts in United States Dollars except share data and as otherwise stated)

13. Stock based compensation

In 2007, the Company adopted a stock compensation plan ('the Plan') pursuant to which the Company's board of directors may grant stock options or non-vested shares to officers and key employees. The plan has reserved 6,520,000 shares of authorized common stock. Stock options can be granted with an exercise price less than, equal to or greater than the stock's fair market value at the date of grant. All awards have a total contractual term of 10 years, and vest over 4 years as follows:

One fourth of the options - At the end of one year from the date of grant

Three fourths of the options - At the end of each half year during the second, third and fourth year from the date of grant in 6 equal installments.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that used the weighted average assumptions in the following table. Since the Company's shares are not publicly traded and its shares are rarely traded privately, expected volatility is computed based on the average historical volatility of similar entities with publicly traded shares. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividends during the estimated term of the option are based on recent dividend activity; the Company has not paid any cash dividends on common stock in the recent periods and does not anticipate doing so in the foreseeable future.

The Company uses company specific historical data to estimate the expected term of the option, such as employee option exercise and employee post-vesting departure behavior. Since the Company's shares are not publicly traded and its shares are rarely traded privately, expected volatility is estimated based on the average historical volatility of similar entities with publicly traded shares. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve at the date of grant. The Company uses a simplified method available to non-public companies to determine the expected term for the valuation of options.

Assumptions	**2017**	**2016**
Expected dividend yield	-	-
Expected volatility	40.8%	34.8%
Expected term (years)	1-4 years	1-4 years
Risk-free interest rate	1.25%	0.87%

Stock option activity during the period indicated is as follows:

	2017		**2016**	
Particulars	**Number of shares**	**Weighted average exercise price**	**Number of shares**	**Weighted average exercise price**
Outstanding at the beginning of the year	5,158,449	0.658	4,087,949	0.490
Add: Grants during the year	241,000	1.840	1,325,500	1.350
Less: Forfeited	87,600	1.192	141,563	0.942
Less: Exercised	100,717	0.571	113,437	0.562
Closing balance as at	**5,211,132**	**0.711**	**5,158,449**	**0.658**
Exercisable at the end of the year	3,985,882	0.497	3,446,230	0.379

The weighted average remaining contractual life of options as of December 31, 2017 and 2016 is 4.83 years and 5.61 years respectively. The weighted average grant date fair value of options granted during the year 2017 was $1.840 and for the year 2016 $1.350 respectively. During the year ended December 31, 2017, 100,717 options were exercised (2016: 113,437). During the year, the Company has recorded stock compensation expense of $41,056 (2016: $44,604).

14. Stockholders' equity

Equity

The Company is authorized to issue two classes of shares designated as "Common stock" and "Preferred stock". Preferred stock includes series A, series B1, series B2, series C, series C1 and series D preference shares. Each preferred stock is convertible into common stock in the ratio of 1:1.

Voting

Every member shall be entitled to one vote in respect of each share of common stock held by them. In case of each preference shares held, to that many votes to which he would be entitled if he converted such preference shares into shares of common stock.

Dividends

The holders of preferred stock are entitled to receive when, as and if declared by the board, non-cumulative dividends at the annual dividend rate of 8% for the preferred stock prior and in preference to the payment of any dividends on the common stock in such calendar year. No dividend shall be paid on the shares of the common stock shares in any year until all dividends for such year have been declared and paid on the preferred stock.

Liquidation

The holders of preferred stock prior and in preference to any distribution of any of the assets or funds of the Company to the holders of the shares of the common stock shall be entitled to receive for each outstanding preference shares then held by them an amount equal to, greater of original purchase price ($ 0.25 per preference shares of Series A, $ 0.329 per preferred stock of Series B1, and $ 0.499 per preferred stock of Series B2, $ 0.53 per preferred stock of Series C, $ 2.213 per preferred stock of Series C1 and $ 2.248 per preferred stock of Series D) as adjusted plus any declared but unpaid dividend or the amount that would be received if such preferred stock had been converted into shares of common stock immediately prior to such liquidation, dissolution or winding up. If upon the occurrence of a liquidation, dissolution or winding up, the assets and funds of the Company legally available for distribution to the members by any reason shall be insufficient to permit the payment of full liquidation preference, then the entire assets and funds of the Company legally available for distribution to the members shall be distributed pro-rata.

Conversion

Each holder of a preferred stock shall be entitled to convert any or all of its preference shares at any time, without payment of any additional consideration, into such number of fully paid shares of common stock per preference share as is determined by dividing the original purchase price applicable to such series of preference shares by the conversion price applicable to such preference shares determined in each case, in effect at the time of conversion. Any conversion of preference shares shall be effected by the redemption of the relevant number of preference shares and the issuance of an appropriate number of shares of common stock.

(All amounts in United States Dollars except share data and as otherwise stated)

The aforementioned preference shares shall be automatically be converted into common stock:

a) Upon the closing of a firm commitment underwritten public offering on a global stock exchange in which

(i) Net aggregate proceeds to the Company of not less than $ 20,000,000 are raised (after deduction of underwriters commission and expenses) and

(ii) Such offering is made at an offer price per share of at least $ 2.5 (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting the shares of the Company) ('a qualified IPO')

Or

b) With the vote of the Required Holders, where Required Holders would mean the holders of at least 85% of the issued and outstanding shares of Series A preference shares, Series B preference shares, Series C preference shares and Series D preference shares.

15. Operating leases

The Company entered into non-cancellable operating leases for office spaces for a term of 3 to 10 years. The leasehold improvements are included in property and equipment and are being amortized over the shorter of the estimated useful life of the improvements and the lease term.

Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. Rental expense for operating leases (except those with lease terms that were not renewed) during 2017 is $1,640,089 (2016: $1,698,672). Future minimum lease payments under non-cancellable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2017:

Year ending December 31:	**Operating leases**
2018	1,227,744
2019	1,282,052
2020	1,169,944
2021 and later years	2,488,752
Total minimum lease payments	**6,168,492**

16. Accrued and other current liabilities

Particulars	**As at December 31, 2017**	**As at December 31, 2016**
Estimated liability for appeals	1,698,026	1,800,000
Accrued compensation to staff	1,955,279	2,115,544
Advance from customers	991,958	801,209
Provision for expenses	1,209,306	913,530
Accrued compensation to selling shareholders	523,782	1,471,631
Deferred revenue	270,191	239,131
Rent equalization reserve	120,995	195,659
Others	311,558	393,234
	7,081,095	**7,929,938**

(All amounts in United States Dollars except share data and as otherwise stated)

As of December 31, 2017 accrued compensation to selling shareholders comprises of $185,373 payable to erstwhile shareholders of Clear Vision and $338,409 payable to erstwhile shareholders of SCIO Health Analytics (UK) Limited.

17. Long-term debt

Long-term debt as at December 31, 2017 and 2016 consists of the following:

	As at December 31, 2017	As at December 31, 2016
Secured term loan from Silicon Valley Bank, interest at Prime Rate plus 2.25% payable monthly	12,203,249	14,183,249
Total long-term debt	**12,203,249**	**14,183,249**
Less current installments	(1,980,000)	(1,980,000)
Long-term debt, excluding current installments	**10,223,249**	**12,203,249**

In January 2016, the Company has entered into a debt financing agreement with Silicon Valley Bank for $20,500,000 facility, comprising of a term loan of $16,500,000 and a revolving line of credit of $4,000,000. The term loan is repayable in consecutive equal monthly payments of principal in an amount equal to one percent (1.00%) of the term loan amount commencing on January 2016. Remaining balance amount shall be payable on the date of maturity, i.e., December 31, 2020. The term loan carries interest of Prime Rate plus 2.25%. The term loan is secured by the first priority perfected security interest in all the domestic assets of the Company, including IP. The aggregate maturities of long-term debt due for each of the five years subsequent to December 31, 2017 are: $1,980,000 in 2018, $1,980,000 in 2019 and $8,243,249 in 2020.

18. Merger of entities under common control

With effect from January 1, 2017, the Company’s subsidiaries Socrates, Inc. and Hospital Audit Locus, Inc. merged with SCIOinspire Corp. This has been treated as a transaction between entities under common control. Accordingly, the transfer of assets between entities under common control is accounted for at carrying values and does not have any impact on the consolidated financial statements.

19. Consolidated statements of cash flows

On January 20, 2016, the Group purchased the net assets of Clear Vision. Refer note 4 for a summary of the long-lived assets acquired and liabilities assumed as part of the acquisition. Interest payments for the years ended December 31, 2017 and 2016 were $856,052 and $909,284, respectively. Income taxes paid for these years were $1,491,255 and $1,363,721, respectively.

20. Commitments and contingencies

The Company is subject to legal actions, administrative proceedings and claims which have arisen in the ordinary course of its business. The Company believes the resolution of these matters is not likely to have a material and adverse effect on the results of operations or the financial position of the Company. Legal costs incurred in connection with contingencies are expensed as incurred.

21. Subsequent events

The Company has evaluated events and transactions subsequent to the balance sheet date through June 28, 2018, the date the consolidated financial statements were available for issuance.

Pursuant to an Agreement of Merger ('Merger agreement') dated April 28, 2018, by and among SCIOinspire Holdings, Inc. as (the Company), Angler Seller Representative LLC (as Shareholders' Representative), ExlService.com, LLC (as Buyer), ExlService Cayman Merger Sub (as Merger Sub) and ExlService Holdings, Inc. (EXL), the Merger Sub is proposed to be merged, on satisfaction or waiver of all the closing conditions in the Merger agreement, with and into the Company, with the Company continuing as the surviving entity and a wholly owned subsidiary of EXL.

The aggregate merger consideration is $240 million, subject to adjustment based on, among other things, the Company's cash, debt, working capital position and other adjustments as set forth in the Merger Agreement.

Exhibit 99.2

SCIOinspire Holdings, Inc.
and Subsidiaries

Consolidated Financial Statements
June 30, 2018 (Unaudited) and December 31, 2017

SCIOinspire Holdings, Inc. and Subsidiaries
Index
Period ended June 30, 2018 (Unaudited) and December 31, 2017

SCIOinspire Holdings, Inc. and subsidiaries

Consolidated Balance Sheets

(Unaudited)

(All amounts in United States Dollars except share data and as otherwise stated)

	As at June 30, 2018	**As at December 31, 2017**
ASSETS		
Current assets:		
Cash and cash equivalents (Note 5)	10,026,047	6,088,890
Cash received on behalf of customers	2,789,930	2,301,863
Trade accounts receivable, less allowance for doubtful accounts of $75,000 (December 31, 2017: $200,000) (Note 6)	6,077,673	6,667,643
Unbilled revenue	13,846,227	9,182,623
Income taxes receivable	—	3,018,289
Other current assets (Note 7)	2,246,332	1,340,727
Total current assets	**34,986,209**	**28,600,035**
Property and equipment, net (Note 9)	8,859,439	7,593,295
Intangible assets, net (Note 10)	2,390,298	2,890,715
Goodwill (Note 11)	17,511,162	17,511,162
Deferred tax assets (Note 8)	210,243	148,096
Other assets (Note 7)	1,449,702	1,618,233
Total assets	**65,407,053**	**58,361,536**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of long term debt (Note 16)	1,980,000	1,980,000
Trade accounts payable	323,620	416,252
Income taxes payable	208,085	86,904
Accrued and other current liabilities (Note 15)	8,777,229	7,081,095
Subrogation services obligations	2,798,771	2,310,721
Overpayment services obligations	10,593	10,593
Total current liabilities	**14,098,298**	**11,885,565**
Long term debt, excluding current installments (Note 16)	8,949,660	10,223,249
Liability for employee benefits	164,752	89,637
Other liabilities	209,500	239,429
Deferred tax liabilities (Note 8)	2,273,990	478,122
Total liabilities	**25,696,200**	**22,916,002**

SCIOinspire Holdings, Inc. and subsidiaries

Consolidated Balance Sheets

(Unaudited)

(All amounts in United States Dollars except share data and as otherwise stated)

	As at June 30, 2018	As at December 31, 2017
Stockholders' equity:		
Common stock, $0.001 par value;	15,695	14,617
88,790,205 shares authorized as at June 30, 2018 and December 31, 2017; 15,694,631 shares issued and outstanding as at June 30, 2018 and 14,616,677 shares issued and outstanding as at December 31, 2017		
Series A Preference shares, $0.001 par value;	40,110	40,019
40,119,015 preference shares authorized as at June 30, 2018 and December 31, 2017; 40,109,873 shares issued and outstanding as at June 30, 2018 and 40,019,015 shares issued and outstanding as at December 31, 2017 (liquidation preference of $10,004,754 over common stock, as of June 30, 2018 and December 31, 2017)		
Series B1 Preference shares, $0.001 par value;	6,636	6,636
6,636,375 preference shares authorized and issued and outstanding as at June 30, 2018 and December 31, 2017; (liquidation preference of $2,183,000 over common stock, as at June 30, 2018 and December 31, 2017)		
Series B2 Preference shares, $0.001 par value;	7,441	7,441
7,440,868 preference shares authorized and issued and outstanding as at June 30, 2018 and December 31, 2017 (liquidation preference of $3,717,000 over common stock as at June 30, 2018 and December 31, 2017)		
Series C Preference shares, $0.001 par value;	9,434	9,434
9,433,962 preference shares authorized and issued and outstanding as at June 30, 2018 and December 31,2017 (liquidation preference of $7,500,000 over common stock as at June 30, 2018 and December 31, 2017)		
Series C1 Preference shares, $0.001 par value;		
903,616 preference shares authorized and issued and outstanding as at June 30, 2018 and December 31, 2017 (liquidation preference of $2,000,000 over common stock as at June 30, 2018 and December 31, 2017)	904	904
Series D Preference shares, $0.001 par value;		
1,779,180 preference shares authorized and issued and outstanding as at June 30, 2018 and 1,779,180 as at December 31, 2017 (liquidation preference of $4,000,000 over common stock as at June 30, 2018 and December 31, 2017)	1,779	1,779
Additional paid in capital	32,235,020	32,096,370
Accumulated surplus	8,187,571	3,749,515
Accumulated other comprehensive loss	(793,737)	(481,181)
Total stockholders' equity	**39,710,853**	**35,445,534**
Total liabilities and stockholders' equity	**65,407,053**	**58,361,536**

See accompanying notes to the unaudited consolidated financial statements.

SCIOinspire Holdings, Inc. and subsidiaries

Consolidated Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

(All amounts in United States Dollars except share data and as otherwise stated)

	Six months ended	
	June 30, 2018	**June 30, 2017**
Revenue		
Service income	41,060,075	32,803,997
Other income	150,988	1,540
Total revenue	**41,211,063**	**32,805,537**
Salaries and employee benefits	26,362,981	23,148,681
Other expenses	6,927,357	7,166,622
Depreciation and amortization	1,817,196	2,030,844
Transaction related costs	1,628,697	95,006
Interest expense	379,943	431,102
Total expenses	**37,116,174**	**32,872,255**
Profit/(Loss) before income taxes	**4,094,889**	**(66,718)**
Income tax expense (Note 8)	1,438,229	125,542
Net income/(loss)	**2,656,660**	**(192,260)**
Other comprehensive income, net of tax		
Foreign currency translation adjustments	(312,556)	127,467
Other comprehensive income/(loss)	**(312,556)**	**127,467**
Net comprehensive income/(loss)	**2,344,104**	**(64,793)**

See accompanying notes to the unaudited consolidated financial statements.

SCIOinspire Holdings, Inc. and subsidiaries

Statement of Changes in Stockholders' Equity

(Unaudited)

(All amounts in United States Dollars except share data and as otherwise stated)

	Series A Preference Shares		**Series B1 Preference Shares**		**Series B2 Preference Shares**		**Series C Preference Shares**		**Series C1 Preference Shares**		**Series D Preference Shares**		**Common Stock**		**Additional paid in capital**	**Accumulated other comprehensive (loss)**	**Accumulated surplus**	**Total stockholders' equity**
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**				
Balance at January 01, 2017	**40,019,015**	**40,019**	**6,636,375**	**6,636**	**7,440,868**	**7,441**	**9,433,962**	**9,434**	**903,616**	**904**	**1,779,180**	**1,779**	**14,499,598**	**14,500**	**31,977,312**	**(644,487)**	**4,886,318**	**36,299,856**
Issue of common stock	—	—	—	—	—	—					—	—	23,862	24	53,623	—	—	53,647
Exercise of stock option	—	—	—	—	—	—	—	—	—	—	—	—	93,217	93	24,372	—	—	24,465
Stock compensation expense	—	—	—	—	—	—	—	—	—	—	—	—	—	—	25,028	—	—	25,028
Loss for the period	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(192,260)	(192,260)
Foreign currency translation gain net of tax $ Nil	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	127,467	—	127,467
Balance at June 30, 2017	**40,019,015**	**40,019**	**6,636,375**	**6,636**	**7,440,868**	**7,441**	**9,433,962**	**9,434**	**903,616**	**904**	**1,779,180**	**1,779**	**14,616,677**	**14,617**	**32,080,335**	**(517,020)**	**4,694,058**	**36,338,203**
Balance at January 01, 2018 as previously reported	**40,019,015**	**40,019**	**6,636,375**	**6,636**	**7,440,868**	**7,441**	**9,433,962**	**9,434**	**903,616**	**904**	**1,779,180**	**1,779**	**14,616,677**	**14,617**	**32,096,370**	**(481,181)**	**3,749,515**	**35,445,534**
Adoption of ASC 606 (Note 17)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,781,396	1,781,396
Adjusted balance as of January 01, 2018	40,019,015	40,019	6,636,375	6,636	7,440,868	7,441	9,433,962	9,434	903,616	904	1,779,180	1,779	14,616,677	14,617	32,096,370	(481,181)	5,530,911	37,226,930
Issue of preference shares	90,858	91	—	—	—	—	—	—	—	—	—	—	—	—	22,624	—	—	22,715
Exercise of stock option	—	—	—	—	—	—	—	—	—	—	—	—	1,077,954	1,078	110,466	—	—	111,544
Stock compensation expense	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5,560	—	—	5,560
Profit for the period	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,656,660	2,656,660
Foreign currency translation loss net of tax $ Nil	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(312,556)	—	(312,556)
Balance at June 30, 2018	**40,109,873**	**40,110**	**6,636,375**	**6,636**	**7,440,868**	**7,441**	**9,433,962**	**9,434**	**903,616**	**904**	**1,779,180**	**1,779**	**15,694,631**	**15,695**	**32,235,020**	**(793,737)**	**8,187,571**	**39,710,853**

See accompanying notes to the unaudited consolidated financial statements.

SCIOinspire Holdings, Inc. and subsidiaries

Consolidated Statement of Cash Flows

(Unaudited)

(All amounts in United States Dollars except share data and as otherwise stated)

	Six months ended	
	June 30, 2018	**June 30, 2017**
Cash flows from operating activities:		
Net income/(loss)	2,656,660	(192,260)
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,315,091	1,528,739
Amortization	502,105	502,105
Deferred tax expense	1,150,565	(36,833)
Allowance for doubtful accounts	75,000	—
Stock compensation expense	5,560	25,028
Changes in operating assets and liabilities		
Accounts receivable	491,939	419,358
Unbilled revenue	(2,007,313)	(2,601,664)
Other assets	(494,618)	(120,087)
Income taxes receivable/(payable)	3,067,088	(693,381)
Accounts payable	(90,528)	(17,544)
Accrued and other liabilities	1,478,199	74,938
Cash received on behalf of customers	(488,067)	(630,136)
Subrogation services obligations	488,049	570,801
Overpayment services obligations	—	(7,106)
Net cash provided by/(used in) operating activities	**8,149,730**	**(1,178,042)**
Cash flows from investing activities:		
Acquisition of business, net of cash	(417,076)	(684,341)
Capital expenditures	(2,636,112)	(2,490,571)
Net cash used in investing activities	**(3,053,188)**	**(3,174,912)**
Cash flows from financing activities:		
Principal payments on long-term debt	(1,273,589)	(990,000)
Proceeds from exercise of options	111,544	78,112
Net cash used in financing activities	**(1,162,045)**	**(911,888)**
Effect of exchange rate changes on cash	2,660	29,634
Net change in cash and cash equivalents	**3,937,157**	**(5,235,208)**
Cash and cash equivalents at beginning of period	6,088,890	13,655,743
Cash and cash equivalents at end of period	**10,026,047**	**8,420,535**
Supplement disclosures of cash flow information:		
Cash paid for income taxes	198,071	1,258,057
Cash paid during the period for interest	379,943	431,102
Non cash investing activities:		
Issuance of common stock for business acquisition	—	53,647

See accompanying notes to the unaudited consolidated financial statements.

1. Description of Business

SCIOinspire Holdings Inc. ("the Company") was incorporated under the law of Cayman Islands on July 30, 2007, by a team of professionals having expertise in the Healthcare industry, as an exempted company with limited liability. The Company through its subsidiaries ("the Group") offer Cost containment / Payment Integrity services, Facility and claims audit, Analytics and Data Management, Healthcare Analytics, Actuarial Consulting, Risk Adjustment, Software – Hosting / License, Business Process Outsourcing services, Commercial Effectiveness etc., to companies in the Healthcare and Pharmaceutical industry.

2. Summary of Significant Accounting Policies

Basis of preparation

The accompanying unaudited interim consolidated financial statements include the accounts of the SCIOinspire Holdings Inc. and its wholly owned subsidiaries – SCIOinspire Corp, SCIOinspire Consulting Services (India) Private Limited, SCIO Health Analytics (UK) Limited and Data Intelligence Limited, and have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) for interim financial information.

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 interim consolidated statements of operations for the interim periods presented are not necessarily indicative of the results for the full year or for any subsequent period.

Use of estimates

The preparation of 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of property and equipment, the carrying amount of intangible assets and goodwill, allowances for doubtful accounts, liability for appeals, deferred tax asset valuation allowances, provisions, share based compensation, income tax uncertainties and other contingencies.

Principles of consolidation

All significant inter-company balances and transactions have been eliminated in consolidation. The Group consolidates entities in which it has a controlling financial interest based on either the variable interest entity (VIE) or voting interest model. The Group currently has no involvement with variable interest entities.

Controlling interest in businesses under common control

The Group accounts for transactions between entities under common control, by initially recognizing the assets and liabilities transferred at the date of acquisition at the carrying values. Refer Note 18.

2. Summary of Significant Accounting Policies (continued)

Functional currency

The unaudited consolidated financial statements are reported in United States Dollar. The functional currency of the Company and its subsidiaries is United States Dollars, except that of the Indian subsidiary whose functional currency is Indian Rupees and for SCIO Health Analytics (UK) Ltd. the functional currency is Pound Sterling. The translation of the Indian Rupee and Pound Sterling into United States Dollars is performed for balance sheet accounts using the exchange rates in effect as at the balance sheet date and for the statement of operations using the average exchange rate prevailing during the period. The gains or losses resulting from such translation are reported under accumulated other comprehensive income / (loss), net, as a separate component of equity.

Foreign currency denominated monetary assets and monetary liabilities at the period-end are translated at the period-end exchange rate. Exchange rate differences resulting from foreign exchange transactions settled during the period, including period-end translation of monetary assets and liabilities are recognized in the consolidated statement of operations.

Cash and cash equivalents

The Group considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of cash and deposits with banks with an initial term of less than three months, which are unrestricted as to its use.

Cash received on behalf of customers

As part of its subrogation services, the Group receives cash payments on behalf of its clients, which the Group is obligated to remit to various clients after recovering its fees and expenses.

Trade accounts receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by operating activities in the statements of cash flows. The Group maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and the Group's customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. The Group reviews its allowance for doubtful accounts periodically. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Group does not have any off-balance-sheet credit exposure related to its customers. Allowances for doubtful accounts recognized during the six months period ended June 30, 2018 was $75,000 (June 30, 2017: Nil).

Changes in accounting policies

Except as described below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements. On January 1, 2018, the date of initial application, the Group adopted Topic 606 using the cumulative-effect method by recognizing the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of equity, resulting in an increase of $1,781,396, primarily on account of recognition of revenue on contingent contracts in the audit and recovery services prior to collection of payments as part of variable consideration as permitted under topic 606. The initial application scopes in those contracts which were not completed as at January 1, 2018.

2. Summary of Significant Accounting Policies (continued)

Results for reporting periods beginning January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with Group's historical accounting under Topic 605.

Revenue recognition

The Group offers Cost containment / Payment Integrity services, Facility and claims audit, Analytics and Data Management, Healthcare Analytics, Actuarial Consulting, Risk Adjustment, Software – Hosting / License, Business Process Outsourcing services, Commercial Effectiveness etc., to companies in the Healthcare and Pharmaceutical industry.

Arrangements with Multiple Performance Obligations

The Group's contracts with customers do not generally bundle different services together except for software and related services contracts. In such software and related services contracts, revenue is allocated to each performance obligation based on the relative standalone selling price.

Type of Contracts

Revenue from audit and recovery services is derived from contingent and non-contingent fee arrangements.

Revenue from certain audit and recovery services contracts are contingent on collection of overpayments identified by the Group. Such revenue are categorized as contingent fee arrangements. Under Topic 606, contingent revenues are estimated in accordance with the guidance on variable consideration in Topic 606 and accounted as revenue when there is probability of collection.

Revenues from services having non-contingent fee arrangements are substantially provided on a time-and-material basis and are recognized based on the contractual terms as the services are performed.

Direct and incremental costs pertaining to such services are amortized over the period of contract. The costs deferred are limited to the extent of future contractual revenues for work completed and recoverability established as at the Balance sheet date. These deferred cost are included as part of the other assets as and when applicable.

Revenue from annual maintenance contracts are recognized ratably over the period in which services are rendered. Revenues from services which are substantially provided on a time-and-material basis are recognized based on the contractual terms as the services are performed.

Payment terms

All Contracts entered into by the Group specify the payment terms. Usual payment terms range between 30-60 days. The Group does not have any extended payment terms clauses in existing contracts.

Variable Consideration

The transaction price shall include an estimate of variable consideration to the extent that it is 'probable' that a significant reversal in the amount of cumulative revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

2. Summary of Significant Accounting Policies (continued)

Allocation of transaction price to performance obligations

The transaction price is allocated to performance obligations on a relative standalone selling price basis. Standalone selling prices are estimated by reference to the total transaction price less the sum of the observable standalone selling prices of other goods or services promised in the contract. In assessing whether to allocate variable consideration to a specific part of the contract, the Group considers the nature of the variable payment and whether it relates specifically to its efforts to satisfy a specific part of the contract.

In certain contingency based business, providers (third parties) have the right to appeal a claim and may pursue additional appeals if the initial appeal is found in favor of Group's customers. For revenue realized from such contingency business, the Group accrues an estimated liability based on the amount of fees which are subject to appeal and which we estimate are probable of being returned to providers following a successful appeal. This estimated liability for appeals is an offset to revenue on our consolidated statements of operations. The estimates are based on historical experience with appeals. The estimated liability of appeals of $2,000,000 as at June 30, 2018 and $1,698,026 as at December 31, 2017 represent our best estimate of the potential amount of repayments related to appeals of claims for which fees were previously collected and recognized as revenue. The estimates are based on historical experience with appeals. To the extent the amount to be returned to providers following a successful appeal exceeds the amount accrued, revenue in the applicable period would be reduced by the amount of the excess. The inability to correctly estimate the estimated liabilities could adversely affect our revenue in future periods.

Impact on consolidated financial statements

The following tables summarizes the impacts of adopting Topic 606 on the Group's consolidated financial statements for the six months period ended June 30, 2018:

(All amounts in United States Dollars except share data and as otherwise stated)

2. Summary of Significant Accounting Policies (continued)

Consolidated balance sheet

	Impact of changes in accounting policies		
As at June 30, 2018	**As reported**	**Adjustments**	**Balances without adoption of Topic 606**
Assets			
Current assets			
Cash and cash equivalents	10,026,047	—	10,026,047
Cash received on behalf of customers	2,789,930	—	2,789,930
Trade accounts receivable	6,077,673	—	6,077,673
Unbilled revenue	13,846,227	(4,238,754)	9,607,473
Other current assets	2,246,332	—	2,246,332
Total current assets	**34,986,209**	**(4,238,754)**	**30,747,455**
Property and equipment, net	8,859,439	—	8,859,439
Intangible assets, net	2,390,298	—	2,390,298
Goodwill	17,511,162	—	17,511,162
Deferred tax assets	210,243	—	210,243
Other assets	1,449,702	—	1,449,702
Total assets	**65,407,053**	**(4,238,754)**	**61,168,299**
Current liabilities			
Current installments of long term debt	1,980,000	—	1,980,000
Trade accounts payable	323,620	—	323,620
Income taxes payable	208,085	—	208,085
Accrued and other current liabilities	8,777,229	(301,973)	8,475,256
Subrogation services obligations	2,798,771	—	2,798,771
Overpayment services obligations	10,593	—	10,593
Total current liabilities	**14,098,298**	**(301,973)**	**13,796,325**
Long term debt, excluding current installments	8,949,660	—	8,949,660
Liability for employee benefits	164,752	—	164,752
Other liabilities	209,500	—	209,500
Deferred tax liabilities	2,273,990	(877,229)	1,396,761
Total liabilities	**25,696,200**	**(1,179,202)**	**24,516,998**
Stockholders’ equity			
Common stock, $0.001 par value	15,695	—	15,695
Series A Preference shares, $0.001 par value	40,110	—	40,110
Series B1 Preference shares, $0.001 par value	6,636	—	6,636
Series B2 Preference shares, $0.001 par value	7,441	—	7,441
Series C Preference shares, $0.001 par value	9,434	—	9,434
Series C1 Preference shares, $0.001 par value	904	—	904
Series D Preference shares, $0.001 par value	1,779	—	1,779
Additional paid in capital	32,235,020	—	32,235,020
Accumulated surplus	8,187,571	(3,059,552)	5,128,019
Accumulated other comprehensive loss	(793,737)	—	(793,737)
Total stockholders' equity	**39,710,853**	**(3,059,552)**	**36,651,301**
Total liabilities and stockholders' equity	**65,407,053**	**(4,238,754)**	**61,168,299**

(All amounts in United States Dollars except share data and as otherwise stated)

2. Summary of Significant Accounting Policies (continued)

Consolidated statements of income and comprehensive income

For the six months period ended June 30, 2018	Impact of changes in accounting policies		
	As reported	**Adjustments**	**Balances without adoption of Topic 606**
Revenue			
Service income	41,060,075	(1,582,463)	39,477,612
Other income	150,988	—	150,988
Total revenue	**41,211,063**	**(1,582,463)**	**39,628,600**
Salaries and employee benefits	26,362,981	—	26,362,981
Other expenses	6,927,357	—	6,927,357
Depreciation and amortization	1,817,196	—	1,817,196
Transaction related costs	1,628,697	—	1,628,697
Interest expense	379,943	—	379,943
Total expenses	**37,116,174**	**—**	**37,116,174**
Profit before income taxes	**4,094,889**	**(1,582,463)**	**2,512,426**
Income tax expense	1,438,229	(304,307)	1,133,922
Net income	**2,656,660**	**(1,278,156)**	**1,378,504**
Other comprehensive income, net of tax			
Foreign currency translation adjustments	(312,556)	—	(312,556)
Other comprehensive income/(loss)	**(312,556)**	**—**	**(312,556)**
Net comprehensive income/(loss)	**2,344,104**	**(1,278,156)**	**1,065,948**

Consolidated statements of cash flows

For the six months period ended June 30, 2018	Impact of changes in accounting policies		
	As reported	**Adjustments**	**Balances without adoption of Topic 606**
Cash flows from operating activities			
Net income	2,656,660	(1,278,156)	1,378,504
Adjustments to reconcile net income to net cash from operating activities			
Depreciation	1,315,091	—	1,315,091
Amortization	502,105	—	502,105
Deferred income tax expense	1,150,565	(304,307)	846,258
Allowance for doubtful accounts	75,000	—	75,000
Stock compensation expense	5,560	—	5,560
Changes in operating assets and liabilities			
Accounts receivable	491,939	—	491,939
Unbilled revenue	(2,007,313)	1,582,463	(424,850)
Other assets	(494,618)	—	(494,618)
Income tax receivable/(payable)	3,067,088	—	3,067,088
Accounts payable	(90,528)	—	(90,528)
Accrued and other liabilities	1,478,199	—	1,478,199

(All amounts in United States Dollars except share data and as otherwise stated)

2. Summary of Significant Accounting Policies (continued)

Cash received on behalf of customers	(488,067)	—	(488,067)
Subrogation services obligations	488,049	—	488,049
Overpayment services obligations	—	—	—
Net cash provided by operating activities	**8,149,730**	—	**8,149,730**
Cash flows from investing activities:			
Acquisition of business, net of cash	(417,076)	—	(417,076)
Capital expenditures	(2,636,112)	—	(2,636,112)
Net cash used in investing activities	**(3,053,188)**	—	**(3,053,188)**
Cash flows from financing activities:			
Principal payments on long-term debt	(1,273,589)	—	(1,273,589)
Proceeds from exercise of options	111,544	—	111,544
Net cash used in financing activities	**(1,162,045)**	—	**(1,162,045)**
Effect of exchange rate changes on cash	2,660	—	2,660
Net change in cash and cash equivalents	**3,937,157**	—	**3,937,157**
Cash and cash equivalents at beginning of period	6,088,890	—	6,088,890
Cash and cash equivalents at end of period	**10,026,047**	—	**10,026,047**

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Upon the sale or retirement of property and equipment, the accounts are relieved of the cost and the related accumulated depreciation, with any resulting gain or loss included in the statement of operations. Plant and equipment under finance leases are stated at the present value of minimum lease payments.

Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful life of machinery and equipment ranges from 3 to 5 years, furniture and fixtures 5 years. Leasehold improvements are depreciated over the lease period or estimated useful lives which is shorter. Expenditures for major renewals and enhancements that extend the useful lives of property and equipment are capitalized. Expenditure for maintenance and repairs are charged to expense as incurred.

Capitalized software costs

Once the technology feasibility is established as per ASC 985-20, the Group capitalizes costs associated with the acquisition or development of major software for internal and external use in the consolidated balance sheet and amortizes the assets over the expected life of the software, generally between one to seven years. The Group only capitalizes subsequent additions, modifications or upgrades to internal-use software to the extent that such changes allow the software to perform a task it previously did not perform. The Group expenses software maintenance and training costs as incurred. Capitalized software costs have been disclosed as part of property and equipment. The Group has capitalized internally-developed software costs of $2,149,539 for the six months period ended June 30, 2018 (year ended December 31, 2017: $3,775,827).

2. Summary of Significant Accounting Policies (continued)

Business combinations, goodwill and intangible assets

The Group accounts for its business combinations by recognizing the identifiable tangible and intangible assets acquired and liabilities assumed, and any non-controlling interest in the acquired business, measured at their acquisition date fair values. All assets and liabilities of the acquired businesses, including goodwill, are assigned to reporting units. The contingent consideration arrangements are fair valued at the acquisition date and included on that basis in the purchase price consideration and transaction costs are expensed as incurred.

Goodwill represents future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Indefinite-lived intangible assets are not amortized because there is no foreseeable limit to cash flows generated from them. All assets and liabilities of an acquired business including goodwill are assigned to reporting units.

Goodwill is not amortized but is tested for impairment at least on an annual basis on December 31, based on a number of factors, including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. The fair value of the reporting unit is measured by discounting estimated future cash flows. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the process involves a comparison of the implied fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. Goodwill of a reporting unit is tested for impairment annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. The Group performed its annual impairment review of all its reporting units as at December 31, 2017; based on this assessment, the Group had recorded goodwill impairment loss of $4,578,675 as at December 31, 2017 relating its reporting unit - SCIO Health Analytics (UK) Limited.

Intangible assets acquired individually, with a group of other assets or in a business combination are carried at cost less accumulated amortization and impairment. The Group’s intangible assets include customer contracts and non-compete and are amortized on a straight line basis over their estimated useful life of 4 to 10 years.

Impairment of long-lived assets and finite life intangibles

Long-lived assets, such as property and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Group first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third party independent appraisals, as considered necessary.

2. Summary of Significant Accounting Policies (continued)

Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigations, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Income taxes

Income taxes are accounted under the asset and liability method. The current charge for income tax expense is calculated in accordance with the relevant tax regulations applicable to each entity.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Group recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Group recognizes interest related to unrecognized tax benefits in interest expense. The Group accounts for residual income tax effects in Accumulated other comprehensive income due to a change in tax law or a change in judgment about realization of a valuation allowance, if any, using the portfolio method and only releases residual amounts when the entire portfolio is liquidated.

Stock-based Compensation

The Group recognizes all stock-based compensation as a cost in the unaudited consolidated financial statements. Equity-classified awards are measured at the grant date fair value of the award. The Group has recorded compensation expense based on estimated grant date fair value using the Black-Scholes option-pricing model and estimates the number of forfeitures expected to occur.

Excess tax benefits of awards that are recognized in equity related to stock option exercises are reflected as financing cash inflows. Stock based compensation benefits have been issued by the SCIOinspire Holdings Inc., the holding company since 2008.

Operating leases

The Group leases its office space pursuant to long-term, non-cancellable lease agreements, which have been accounted for as operating leases. Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. Accordingly, rent expense incurred in excess of rent paid is reflected as deferred rent.

2. Summary of Significant Accounting Policies (continued)

Retirement benefits to employees

a) Defined contribution plan

The Group does not have any pension or post retirement plans for any of its employees in US other than the 401(k) Plan administered by Trans America Financial Life Insurance Company. The net periodic costs are recognized as employees render the services necessary to earn the postretirement benefits.

In India, the employees receive benefits from a provident fund, where the employer and employees each make monthly contributions to the plan at a pre-determined rate to the Regional Provident Fund Commissioner. Employer's contribution to the fund is charged as an expense to the statement of operations.

b) Defined benefit plan

In accordance with the Payment of Gratuity Act, 1972, applicable for Indian companies, the Group provides for a lump sum payment to eligible employees, at retirement or termination of employment based on the last drawn salary and years of employment with the Group. The gratuity fund is managed by third party fund managers. Current service costs for defined benefit plans are accrued in the period to which they relate. The liability in respect of defined benefit plans is calculated annually by the Group. The Group records annual amounts relating to its defined benefit plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases and turnover rates. The Group reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so.

Fair value measurement

The Group uses valuation approaches that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Group determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels in accordance with ASU 2011-04 (see note 4 to the unaudited consolidated financial statements):

a) Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

b) Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

c) Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

2 Summary of Significant Accounting Policies (continued)

Recently adopted accounting standards

In May 2014, Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09 (Topic 606) "Revenue from Contracts with Customers" Topic 606 supersedes the revenue recognition requirements in Topic 605 “Revenue Recognition” (Topic 605), and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Group adopted Topic 606 as of January 1, 2018 using the cumulative transition method. Refer to Note 17 to the unaudited consolidated financial statements for details.

Recently issued accounting standards

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a right of use (“ROU”) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The new standard is effective for the Group for annual and interim periods in fiscal years beginning after December 15, 2019, with early adoption permitted.

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.

In June 2016, FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses, which requires 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 of the financial asset(s) so as 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 Group is currently evaluating the effects that the above standards will have on its consolidated financial statements and related disclosures.

3. Significant risks and uncertainties including business and credit concentrations

Financial instruments that potentially subject the Group to a concentrate on of credit risk consist of bank balances, accounts receivable and unbilled revenue. By their nature, all such financial instruments involve risk including credit risk of non-performance by counter parties. In the management’s opinion, as at June 30, 2018, there was no significant risk of loss in the event of non-performance by the counter parties to these financial instruments other than the amounts already provided for in the consolidated financial statements.

Accounts receivable are uncollateralized customer obligations due under normal trade terms. The carrying amount of receivables is reduced by a valuation allowance that reflects management’s best estimate of the amounts that will not be collected.

For the six months period ended June 30, 2018 and June 30, 2017 one of the customers individually provided 34% and 39% of total revenue respectively. As at June 30, 2018 and as at December 31, 2017 one of the customers constituted around 32% and 38% of total accounts receivable respectively.

(All amounts in United States Dollars except share data and as otherwise stated)

4. Fair value measurements

Fair value of financial instruments

The following table presents the carrying amounts and estimated fair value of the Group's financial instruments at June 30, 2018 and December 31, 2017. Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

	As at June 30, 2018		As at December 31, 2017	
	Carrying Amount	Fair value	Carrying Amount	Fair value
Financial assets:				
Cash and cash equivalents	10,026,047	10,026,047	6,088,890	6,088,890
Cash received on behalf of customers	2,789,930	2,789,930	2,301,863	2,301,863
Trade accounts receivable, net	6,077,673	6,077,673	6,667,643	6,667,643
Unbilled revenue	13,846,227	13,846,227	9,182,623	9,182,623
Other assets	393,825	393,825	411,517	411,517
Financial liabilities:				
Long-term debt	10,929,660	10,929,660	12,203,249	12,203,249
Trade accounts payable	323,620	323,620	416,252	416,252
Accrued and other current liabilities	8,777,229	8,777,229	7,081,095	7,081,095
Subrogation services obligations	2,798,771	2,798,771	2,310,721	2,310,721
Overpayment services obligations	10,593	10,593	10,593	10,593

The fair values of the financial instruments shown in the above table as at June 30, 2018 and December 31, 2017 represent the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Group's own judgments about the assumptions that market participants would use in pricing the asset or liability.

Those judgments are developed by the Group based on the best information available in the circumstances, including expected cash flows and appropriately risk adjusted discount rates, available observable and unobservable inputs.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Cash and cash equivalents, cash received on behalf of customers, trade accounts receivable, unbilled revenue, other assets, long-term debt, trade accounts payable, accrued and other current liabilities, subrogation services obligations, overpayment services obligations and other liabilities: The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

- Non-financial assets and liabilities not included above: The fair value of goodwill is determined by estimating the expected present value of future cash flows without reference to observable market transactions.

(All amounts in United States Dollars except share data and as otherwise stated)

Accrued and other current liabilities include accrued earn-out consideration payable to selling shareholders. The following table provides a roll-forward of the fair value of earn-out consideration categorized as level 3 in the fair value hierarchy for the six months period ended June 30, 2018 and for the year ended December 31, 2017:

	Six months period ended June 30, 2018	Year ended December 31, 2017
Opening balance	523,782	1,471,631
Earn-out consideration payable in connection with acquisitions	-	337,573
Payments made during the period	(417,076)	(1,263,594)
Other*	-	(21,828)
Closing balance	**106,706**	**523,782**

*Includes interest expense and impact of changes in foreign exchange. These are included in interest expense and other expenses respectively, in the consolidated statements of operations and comprehensive income.

5. Cash and cash equivalents

	As at June 30, 2018	As at December 31, 2017
Cash on hand	691	1,156
Bank balances	10,025,356	6,087,734
	10,026,047	**6,088,890**

6. Trade accounts receivable

Trade accounts receivable as at June 30, 2018 amounted to $6,077,673, net of allowance for doubtful accounts. The Group maintains an allowance for doubtful accounts based on financial condition of the customer and aging of the account receivable. Accounts receivables are not collateralized.

The age profile of accounts receivable is given below:

Period in days	As at June 30, 2018	As at December 31, 2017
0 – 30	5,724,327	5,885,080
31 – 60	253,846	487,431
61 – 90	71,516	120,110
More than 90	123,770	375,022
	6,173,459	**6,867,643**
Less : Allowance for doubtful accounts	(95,786)	(200,000)
	6,077,673	**6,667,643**

(All amounts in United States Dollars except share data and as otherwise stated)

7. Other assets

	As at June 30, 2018	As at December 31, 2017
Other current assets		
Prepayments	1,316,727	691,077
Statutory receivables	473,730	201,670
Other advances	154,196	146,301
Deferred costs	301,679	301,679
	2,246,332	**1,340,727**
Other assets (non-current)		
Deferred costs	1,055,877	1,206,716
Advances and deposits	393,825	411,517
	1,449,702	**1,618,233**

8. Income taxes

The Company determines its 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 interim period, the Company updates its estimate of the annual effective tax rate, and if its estimated tax rate changes, the Company makes a cumulative adjustment.

In December 2017 the U.S. government enacted comprehensive tax legislation, the Tax Cuts and Jobs Act (the Act), which significantly revises the ongoing U.S. corporate income tax law by lowering the U.S. federal corporate income tax rate from 34% to 21%, implementing a modified territorial tax system, imposing a one-time tax on foreign unremitted earnings and setting limitations on deductibility of certain costs (e.g., interest expense and executive compensation), among other things.

The Company recorded income tax expense of $1,438,229 and $125,542 for the six months periods ended June 30, 2018 and 2017, respectively. The effective tax rate decreased from 177% during the six months period ended June 30, 2017 to 34.3% during the six months period June 30, 2018 (excluding losses of the U.K entity). This is primarily due to the change in the pre-tax income/ loss across geographies as disclosed in the table below. In addition, the corporate tax rate in Cayman Islands is Nil and these losses are not available for set-off against the profits earned in other geographies.

The geography-wise income (loss) before income taxes is as below:

	Six months period ended June 30, 2018	Six months period ended June 30, 2017
Cayman Islands	(1,880,185)	(492,535)
U.S	5,252,465	98,333
India	821,407	465,143
U.K.	(98,798)	(138,659)
	4,094,889	**(67,718)**

Tax rate reconciliation

Income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 21% to pretax book income (June 30, 2017: 34%). The significant reconciling items from the expected income tax expense to the actual income tax expense include state and local income taxes, change in valuation allowance, R&D research tax credits and tax rate differentials of Cayman Islands, UK and India.

(All amounts in United States Dollars except share data and as otherwise stated)

Significant components of deferred taxes

The temporary differences that give rise to significant portions of the deferred tax assets at June 30, 2018 and December 31, 2017 are related to net operating loss carryforwards, tax credit carryforwards, provision for estimated liabilities and employee related liabilities (principally due to accrual for financial reporting purposes). The temporary differences that give rise to significant portions of the deferred tax liabilities at June 30, 2018 and December 31, 2017 are related to unbilled revenue, transaction related costs, property and equipment and intangible assets.

Management assessed that there are no uncertain unrecognized tax benefits and that the tax positions taken have met the minimum statutory requirements to avoid payment of penalties.

The change in the total valuation allowance for deferred tax assets as at June 30, 2018 and December 31, 2017 is as follows:

Particulars	**Six months period ended June 30, 2018**	**Year ended December 31, 2017**
Opening valuation allowance	**1,183,620**	**1,266,488**
Addition during the year	62,583	116,457
Reduction during the year	—	(199,325)
Closing valuation allowance	**1,246,203**	**1,183,620**

In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income and tax-planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more-likely-than-not that the Group will realize the benefits of these deductible differences, net of the existing valuation allowances at June 30, 2018. The majority of the Group's deferred tax assets not reduced by valuation allowance are supported by reversing taxable temporary differences. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The Group intends to indefinitely reinvest all of its accumulated and future foreign earnings outside the Cayman Islands. If such earnings were repatriated to Cayman Islands, they would be subject to withholding or dividend distribution taxes. Due to the various methods by which such earnings could be repatriated in the future, the amount of taxes attributable to the undistributed earnings are dependent on circumstances existing if, and when remittance occurs. The amount of such temporary differences totaled $22,723,697 as at June 30, 2018. Determination of the amount of any unrecognized deferred income tax liability on this temporary difference is not practicable because of the complexities of the hypothetical calculation.

The Group’s deferred tax assets related to net operating loss carryforwards are expected to expire over various periods. The Group has $69,725,327 of state tax NOLs and tax credits of $1,059,446 in the U.S. which will expire on various dates beginning in 2027 and 2025 respectively. The Group also has $2,492,405 of carryforward losses and $4,253 of tax credits in UK which can be carried forward indefinitely for use against future income.

The Group is subject to the continual examination of its income tax returns by the IRS and other domestic and foreign tax authorities. For U.S, India and UK the earliest years open for examination are fiscal years beginning on or after January 1, 2014, April 1, 2009 and January 1, 2016 respectively.

(All amounts in United States Dollars except share data and as otherwise stated)

9. Property and equipment, net

Property and equipment consist of the following:	As at June 30, 2018	As at December 31, 2017
Machinery and equipment	5,850,640	5,675,491
Furniture and fixtures	924,128	723,449
Leasehold improvements	598,577	727,043
Computer software*	17,407,096	15,185,158
	24,780,441	**22,311,141**
Accumulated depreciation	(15,921,002)	(14,717,846)
	8,859,439	**7,593,295**

*Includes software under development of $1,518,404 as at June 30, 2018 (December 31, 2017:$1,210,499).

The total depreciation for the six months periods ended June 30, 2018 and June 30, 2017 was $1,315,091 and $1,528,739, respectively.

10. Intangible assets, net

Acquired intangible assets, either individually or with a group of other assets or in a business combination, are as follows:

	As at June 30, 2018	As at December 31, 2017
Customer relationship (Hospital Audit Locus Inc.)	3,109,000	3,109,000
Customer relationship/Non-Compete (Clear Vision)	2,533,408	2,533,408
Customer list (Socrates Inc.)	1,350,000	1,350,000
Customer relationship (SCIO Health Analytics (UK) Limited)	1,081,632	1,081,632
Customer contracts (Solucia division)	50,000	50,000
	8,124,040	**8,124,040**
Accumulated amortization	(5,733,742)	(5,233,325)
	2,390,298	**2,890,715**

Intangible assets subject to amortization	Gross carrying amount	Weighted average amortization period	Accumulated amortization	Net carrying amount
Customer relationships	4,190,632	8 yrs	3,278,178	912,454
Customer relationships – Clear Vision	2,513,408	6 yrs	1,047,231	1,466,177
Customer list	1,350,000	5 yrs	1,350,000	-
Customer contracts	50,000	5 yrs	50,000	-
Non-compete	20,000	5 yrs	8,333	11,667
Total	**8,124,040**		**5,733,742**	**2,390,298**

Aggregate amortization expense for the six month periods ended June 30, 2018 and June 30, 2017 were $502,105 and $502,105 respectively. Estimated amortization expense for the six months ended December 31, 2018 is $501,771, for the year ended December 31, 2019 is $733,135, for the year ended December 31, 2020 is $733,135, for the year ended December 31, 2021 is $422,257.

(All amounts in United States Dollars except share data and as otherwise stated)

11. Goodwill

The carrying amount of goodwill is as follows:

Particulars Acquisition of :	**As at** **June 30, 2018**	**As at** **December 31, 2017**
Hospital Audit Locus, Inc.	5,759,810	5,759,810
Solucia	542,837	542,837
Socrates, Inc.	2,564,467	2,564,467
SCIO Health Analytics (UK) Limited	8,689,765	8,689,765
Clear Vision	4,532,958	4,532,958
Gross closing balance	**22,089,837**	**22,089,837**
Accumulated impairment losses	(4,578,675)	(4,578,675)
Net closing balance	**17,511,162**	**17,511,162**

Goodwill has been allocated to the following reporting units, which represent different business units of the Group, as follows:

Particulars	**As at** **June 30, 2018**	**As at** **December 31, 2017**
U.S.	13,400,072	13,400,072
U.K.	4,111,090	4,111,090
Net closing balance	**17,511,162**	**17,511,162**

12. Stock based compensation

In 2007, the Group adopted a stock compensation plan (‘the Plan’) pursuant to which the Group’s board of directors may grant stock options or non-vested shares to officers and key employees. The plan has reserved 6,520,000 shares of authorized common stock. Stock options can be granted with an exercise price less than, equal to or greater than the stock’s fair market value at the date of grant. All awards have a total contractual term of 10 years, and vest over 4 years as follows:

One fourth of the options	- At the end of one year from the date of grant
Three fourths of the options	- At the end of each half year during the second, third and fourth year from the date of grant in 6 equal installments.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that used the weighted average assumptions in the following table. Since the Company’s shares are not publicly traded and its shares are rarely traded privately, expected volatility is computed based on the average historical volatility of similar entities with publicly traded shares. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividends during the estimated term of the option are based on recent dividend activity; the Company has not paid any cash dividends on common stock in the recent periods and does not anticipate doing so in the foreseeable future.

The Group uses company specific historical data to estimate the expected term of the option, such as employee option exercise and employee post-vesting departure behavior. Since the Company’s shares are not publicly traded and its shares are rarely traded privately, expected volatility is estimated based on the average historical volatility of similar entities with publicly traded shares. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve at the date of grant. The Group uses a simplified method available to non-public companies to determine the expected term for the valuation of options.

(All amounts in United States Dollars except share data and as otherwise stated)

Assumptions	June 30, 2018	June 30, 2017
Expected dividend yield	-	-
Expected volatility	40.8%	40.8%
Expected term (years)	1-4 years	1-4 years
Risk-free interest rate	1.25%	1.25%

Stock option activity during the six month period ended June 30, 2018 and year ended December 31, 2017 is as follows:

Particulars	June 30, 2018		December 31, 2017	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at the beginning of the period	5,211,132	0.711	5,158,449	0.658
Add: Grants during the period	-	-	241,000	1.840
Less: Forfeited	140,550	0.566	87,600	1.192
Less: Exercised	1,017,954	0.904	100,717	0.571
Closing balance	**4,052,628**	**0.859**	**5,211,132**	**0.711**
Exercisable at the end of the period	3,116,409	0.696	3,985,882	0.497

The weighted average remaining contractual life of options as at June 30, 2018 and December 31, 2017 is 5.39 years and 4.83 years respectively. The weighted average grant date fair value of options granted during six months ended as at June 30, 2018 and year ended December 31, 2017 was $1.840 and $1.840, respectively. During the six months period ended June 30, 2018, the Group has recorded stock compensation expense of $5,560 (June 30, 2017: $25,028).

13. Stockholders' equity

Equity

The Company is authorized to issue two classes of shares designated as "Common stock" and "Preferred stock". Preferred stock includes series A, series B1, series B2, series C, series C1 and series D preference shares. Each preferred stock is convertible into common stock in the ratio of 1:1.

Voting

Every member shall be entitled to one vote in respect of each share of common stock held by them. In case of each preference shares held, to that many votes to which he would be entitled if he converted such preference shares into shares of common stock.

Dividends

The holders of preferred stock are entitled to receive when, as and if declared by the board, non-cumulative dividends at the annual dividend rate of 8% for the preferred stock prior and in preference to the payment of any dividends on the common stock in such calendar year. No dividend shall be paid on the shares of the common stock shares in any year until all dividends for such year have been declared and paid on the preferred stock.

Liquidation

The holders of preferred stock prior and in preference to any distribution of any of the assets or funds of the Company to the holders of the shares of the common stock, shall be entitled to receive for each outstanding preference shares then held by them an amount equal to, greater of original purchase price ($ 0.25 per preference shares of Series A, $ 0.329 per preferred stock of Series B1, and $ 0.499 per preferred stock of Series B2, $ 0.53 per preferred stock of Series C, $ 2.213 per preferred stock of Series C1 and $ 2.248 per preferred stock of Series D) as adjusted plus any declared but unpaid dividend or the amount that would be received if such preferred stock had been converted into shares of common stock immediately prior to such liquidation, dissolution or winding up. If upon the occurrence of a liquidation, dissolution or winding up, the assets and funds of the Company legally available for distribution to the members by any reason shall be insufficient to permit the payment of full liquidation preference, then the entire assets and funds of the Company legally available for distribution to the members shall be distributed pro-rata.

(All amounts in United States Dollars except share data and as otherwise stated)

Conversion

Each holder of a preferred stock shall be entitled to convert any or all of its preference shares at any time, without payment of any additional consideration, into such number of fully paid shares of common stock per preference share as is determined by dividing the original purchase price applicable to such series of preference shares by the conversion price applicable to such preference shares determined in each case, in effect at the time of conversion. Any conversion of preference shares shall be effected by the redemption of the relevant number of preference shares and the issuance of an appropriate number of shares of common stock.

The aforementioned preference shares shall be automatically be converted into common stock:

a) Upon the closing of a firm commitment underwritten public offering on a global stock exchange in which

(i) Net aggregate proceeds to the Company of not less than $ 20,000,000 are raised (after deduction of underwriters commission and expenses) and

(ii) Such offering is made at an offer price per share of at least $ 2.5 (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting the shares of the Company) ('a qualified IPO')

Or

b) With the vote of the Required Holders, where Required Holders would mean the holders of at least 85% of the issued and outstanding shares of Series A preference shares, Series B preference shares, Series C preference shares and Series D preference shares.

14. Operating leases

The Group entered into non-cancellable operating leases for office spaces for a term of 3 to 10 years. The leasehold improvements are included in property and equipment and are being amortized over the shorter of the estimated useful economic life of the improvements and the lease term.

Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. Rental expense for operating leases (except those with lease terms that were not renewed) during the six months period ended June 30, 2018 is $729,977 and for the six months period ended June 30, 2017 is $ 869,541.

Future minimum lease payments under non-cancellable operating leases (with initial or remaining lease terms in excess of one year) expiring after June 30, 2018:

Year ending December 31:	**Operating leases**
2019	1,251,113
2020	1,139,004
2021	854,874
2022	858,516
2023 and later years	664,530
Total minimum lease payments	**4,768,037**

(All amounts in United States Dollars except share data and as otherwise stated)

15. Accrued and other current liabilities

Particulars	As at June 30, 2018	As at December 31, 2017
Estimated liability for appeals	2,000,000	1,698,026
Accrued compensation to staff	2,714,683	1,955,279
Advance from customers	378,893	991,958
Provision for expenses	2,153,051	1,209,306
Accrued compensation to selling shareholders	106,706	523,782
Deferred revenue	1,037,910	270,191
Rent equalization reserve	147,387	120,995
Others	238,599	311,558
	8,777,229	**7,081,095**

As at June 30, 2018 accrued compensation to selling shareholders comprised of $106,706 and Nil payable to erstwhile shareholders of Clear Vision and SCIO Health Analytics (UK) Limited, respectively.

As at December 31, 2017 accrued compensation to selling shareholders comprised of $185,373 and $338,409 payable to erstwhile shareholders of Clear Vision and SCIO Health Analytics (UK) Limited, respectively.

16. Long-term debt

Long-term debt consists of the following:

	As at June 30, 2018	As at December 31, 2017
Secured term loan from Silicon Valley Bank, interest at Prime Rate plus 2.25% payable monthly	10,929,660	12,203,249
Total long-term debt	**10,929,660**	**12,203,249**
Less current installments	(1,980,000)	(1,980,000)
Long-term debt, excluding current installments	**8,949,660**	**10,223,249**

In January 2016, the Group entered into a debt financing agreement with Silicon Valley Bank for $20,500,000 facility, comprising of a term loan of $16,500,000 and a revolving line of credit of $4,000,000. The term loan is repayable in consecutive equal monthly payments of principal in an amount equal to one percent (1.00%) of the term loan amount commencing on January 2016. Remaining balance amount shall be payable on the date of maturity, i.e., December 31, 2020. The term loan carries interest of Prime Rate plus 2.25%. The term loan is secured by the first priority perfected security interest in all the domestic assets of the Group, including IP. The aggregate maturities of long-term debt due for each of the fiscal years subsequent to June 30, 2018 are: $1,980,000 in 2019 and $8,243,249 in 2020.

17. Revenue

Adoption of ASU 2014-09 Topic 606, "Revenue from Contracts with Customers"

On January 1, 2018, the Group adopted Topic 606 using the cumulative- effect method and applied its guidance to those contracts which were not completed as at January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under Topic 605. The Group recorded a net addition to opening equity of $1,781,396 as at January 1, 2018 being the cumulative impact of adopting Topic 606 net of tax, primarily due to recognition of revenue on contingent contracts related to audit and recovery services.

(All amounts in United States Dollars except share data and as otherwise stated)

Contract balances

The following table provides information about accounts receivable and contract liabilities from contracts with customers:

	June 30, 2018	**December 31, 2017**
Accounts receivable, net	6,077,673	6,667,643
Unbilled revenue	13,846,227	9,182,623
Contract liabilities		
Advance from customers	378,893	991,958

Unbilled revenue represents amounts not billed to customers. The Group has accrued the unbilled receivables for work performed in accordance with the terms of contracts with customers and considers no significant performance risk associated with its unbilled receivables.

Contract liabilities represent that portion of deferred revenue for which payments have been received in advance from customers and are included within current liabilities. Contract liabilities are recognized as revenue as (or when) we perform under the contract.

18. Merger of entities under common control

With effect from January 1, 2017, the Company's subsidiaries Socrates, Inc. and Hospital Audit Locus, Inc. merged with SCIOinspire Corp. This has been treated as a transaction between entities under common control. Accordingly, the transfer of assets between entities under common control is accounted for at carrying values and does not have any impact on the unaudited consolidated financial statements.

19. Consolidated statements of cash flows

Interest payments for the six months periods ended June 30, 2018 and June 30, 2017 were $379,943 and $431,102, respectively. Income taxes paid for these periods were $198,071 and $1,258,057, respectively.

20. Commitments and contingencies

The Group is subject to legal actions, administrative proceedings and claims which have arisen in the ordinary course of its business. The Group believes the resolution of these matters is not likely to have a material and adverse effect on the results of operations or the financial position of the Group. Legal costs incurred in connection with contingencies are expensed as incurred.

21. Subsequent events

Pursuant to an Agreement of Merger ('Merger agreement') dated April 28, 2018, by and among SCIOinspire Holdings, Inc. as (the Company), Angler Seller Representative LLC (as Shareholders' Representative), ExlService.com, LLC (as Buyer), ExlService Cayman Merger Sub (as Merger Sub) and ExlService Holdings, Inc. (EXL), the Merger Sub was merged with and into the Company on July 1, 2018, with the Company continuing as the surviving entity and a wholly owned subsidiary of EXL.

The aggregate merger consideration is $236,500,000, subject to certain post-closing adjustments as set forth in the Merger Agreement.

Exhibit 99.3

EXLSERVICE HOLDINGS, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

(In thousands, except share and per share amounts)

On July 1, 2018 (the “Acquisition Date”), ExlService Holdings, Inc. (the “Company” or “EXL”), through its wholly owned subsidiary ExlService.com, LLC (“Buyer”) and Buyer’s wholly owned subsidiary ExlService Cayman Merger Sub (“Merger Sub”), completed the acquisition of SCIOinspire Holdings Inc. (“SCIO”) through a merger (the “merger” or the “acquisition”) of Merger Sub with and into SCIO, with SCIO continuing as the surviving corporation and a wholly owned subsidiary of Buyer. The aggregate purchase consideration for the acquisition was $236,500, subject to certain post-closing adjustments and certain indemnifiable matters under the Agreement of Merger dated April 28, 2018 (the “Merger Agreement”). Immediately prior to the consummation of the merger, certain members of the senior management team of SCIO exchanged $4,080 in shares of SCIO for 69,459 newly-issued shares of restricted common stock of the Company in a private exchange. To finance the acquisition at Closing, the Company utilized its revolver credit facility in the amount of $233,000 and balance with available cash on hand.

The unaudited pro forma condensed combined balance sheet is presented as if the acquisition of SCIO had occurred on June 30, 2018. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2017 and for the six months ended June 30, 2018 illustrate the effect of the acquisition of SCIO had it occurred on January 1, 2017, and were derived from the historical audited consolidated statement of operations for SCIO for the year ended December 31, 2017 and the unaudited historical consolidated statement of operations for the six months ended June 30, 2018, combined with the Company’s historical audited consolidated statement of operations for the year ended December 31, 2017 and the unaudited consolidated statement of operations for the six months ended June 30, 2018, respectively, with merger-related adjustments reflected in each of the periods presented.

The unaudited pro forma condensed combined financial statements were prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and should not be considered indicative of the financial position or results of operations that would have occurred if the acquisition had been completed on the dates indicated, nor are they indicative of the future financial position or results of operations of the Company and SCIO following completion of the acquisition. In accordance with the rules and regulations of the SEC, the pro forma condensed combined statements of operations do not reflect the potential realization of cost savings, or restructuring, or other costs relating to the integration of SCIO, nor do they include any other items not expected to have a continuing impact on the combined results of the two companies. The historical consolidated financial information of the Company and SCIO has been adjusted in the unaudited pro forma condensed combined financial statements to give effect to pro forma events that are (1) directly attributable to the acquisition, (2) factually supportable, and (3) with respect to the statement of operations, expected to have a continuing impact on the combined results.

EXLSERVICE HOLDINGS, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

(In thousands, except share and per share amounts)

The unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes thereto. In addition, the unaudited pro forma condensed combined financial information was based on, and should be read in conjunction with the:

- Separate historical audited financial statements of the Company as of and for the year ended December 31, 2017, including related notes, as filed with the SEC in the Company’s Annual Report on Form 10-K as of and for the year ended December 31, 2017; and the historical unaudited financial statements as of and for the six months ended June 30, 2018, including related notes, as filed with the SEC in the Company’s Quarterly Report on Form 10-Q as of and for the six months ended June 30, 2018.
- Separate historical audited financial statements of SCIO as of and for the year ended December 31, 2017, including related notes; and the historical unaudited financial statements as of and for the six months ended June 30, 2018, including related notes, which are attached as Exhibit 99.1 and Exhibit 99.2, respectively, to this Form 8-K/A.

The unaudited pro forma condensed combined financial information has been prepared using the pro forma effects of the acquisition method of accounting under Accounting Standards Codification ("ASC") Topic 805, "Business Combinations" ("ASC Topic 805") which requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values, with limited exceptions. Transaction costs are not included as a component of the consideration transferred and are expensed as incurred. The excess of the consideration transferred over the estimated amounts of identifiable assets and liabilities of SCIO has been allocated to goodwill on a pro forma basis as of June 30, 2018. The process for estimating fair values in many cases requires the use of significant estimates and assumptions, including the estimation of future cash flows and the development of appropriate discount rates. The Company has developed its fair value estimates from a market participant perspective which could materially differ from entity specific assumptions. The Company’s judgments used in determining these estimates may materially impact the Company’s financial position or results from operations.

The finalization of the Company’s purchase accounting assessment may result in changes in the valuation of assets acquired and liabilities assumed which could have a material impact on the accompanying unaudited pro forma condensed combined financial statements. The Company will finalize the purchase price allocation as soon as practicable within the measurement period in accordance with ASC Topic 805 but in no event later than one year following the Acquisition Date.

EXLSERVICE HOLDINGS, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2018

(In thousands, except share and per share amounts)

	EXL (A)	SCIO[1] (B)	Reclassifications[2] (C)	SCIO Adjusted (D=B+C)	Pro Forma Adjustments (E)	Pro Forma Note	Pro Forma Combined (A+D+E)
Revenues, net	$ 417,085	$ —	$ 41,060	$ 41,060	$ —		$ 458,145
Service income	—	41,060	(41,060)	—	—		—
Other income	—	151	(151)	—	—		—
Cost of revenues[3]	277,750	—	24,771	24,771	179	6(a)	302,700
Gross profit[3]	**139,335**	**NA[4]**	**NA[4]**	**16,289**	**(179)**		**155,445**
Operating expenses:							
General and administrative expenses	56,906	—	6,301	6,301	(2,452)	6(b)	60,755
Selling and marketing expenses	29,103	—	3,847	3,847	131	6(c)	33,081
Depreciation and amortization	21,086	1,817	—	1,817	5,255	6(d)	28,158
Salaries and employee benefits	—	26,363	(26,363)	—	—		—
Other expenses	—	6,927	(6,927)	—	—		—
Transaction related costs	—	1,629	(1,629)	—	—		—
Total operating expenses	**107,095**	**36,736**	**(24,771)**	**11,965**	**2,934**		**121,994**
Income from operations	**32,240**	**4,475**	**(151)**	**4,324**	**(3,113)**		**33,451**
Foreign exchange gain, net	2,029	—	140	140	—		2,169
Interest expense	(1,244)	(380)	—	(380)	(3,617)	6(e)	(5,241)
Other income, net	5,766	—	11	11	—		5,777
Income before income tax expense	**38,791**	**4,095**	**—**	**4,095**	**(6,730)**		**36,156**
Income tax expense	1,057	1,438	—	1,438	(2,390)	6(f)	105
Loss from equity-method investment	114	—	—	—	—		114
Net income	**$ 37,620**	**$ 2,657**	**$ —**	**$ 2,657**	**$ (4,340)**		**$ 35,937**
Earnings per share:							
Basic	$ 1.09						$ 1.04
Diluted	$ 1.07						$ 1.02
Weighted-average number of shares used in computing earnings per share:							
Basic	34,479,202					6(g)	34,580,447
Diluted	35,222,838					6(g)	35,335,967

(1) As per SCIO's unaudited consolidated financial statements for the six months ended June 30, 2018.

(2) The adjustments represent reclassification of items from SCIO's unaudited statement of operations for the six months ended June 30, 2018 to be consistent with EXL's presentation.

(3) Exclusive of depreciation and amortization.

(4) SCIO's unaudited statement of operations for the six months ended June 30, 2018 do not present the measure of gross profit, accordingly a gross profit measure for SCIO and reclassifications have been intentionally left blank.

See the accompanying notes to the unaudited pro forma condensed combined financial statements which are an integral part of these unaudited proforma financial statements.

EXLSERVICE HOLDINGS, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2017

(In thousands, except share and per share amounts)

						Pro Forma		
	EXL (A)	SCIO[1] (B)	Reclassifications[2] (C)	SCIO Adjusted (D=B+C)	Adjustments (E)	Note	Combined (A+D+E)
Revenues, net	$ 762,310	$ —	$ 71,848	$ 71,848	$ —		$ 834,158
Service income	—	71,848	(71,848)	—	—		—
Other income	—	15	(15)	—	—		—
Cost of revenues[3]	495,586	—	45,933	45,933	361	6(a)	541,880
Gross profit[3]	**266,724**	**NA[4]**	**NA[4]**	**25,915**	**(361)**		**292,278**
Operating expenses:							
General and administrative expenses	102,567	—	10,240	10,240	(272)	6(b)	112,535
Selling and marketing expenses	53,383	—	6,843	6,843	250	6(c)	60,476
Depreciation and amortization	38,549	4,277	—	4,277	11,094	6(d)	53,920
Salaries and employee benefits	—	47,591	(47,591)	—	—		—
Other expenses	—	15,171	(15,171)	—	—		—
Compensation to selling shareholders	—	338	(338)	—	—		—
Goodwill impairment loss	—	4,579	—	4,579	—		4,579
Total operating expenses	**194,499**	**71,956**	**(46,017)**	**25,939**	**11,072**		**231,510**
Income from operations	**72,225**	**(93)**	**69**	**(24)**	**(11,433)**		**60,768**
Foreign exchange gain/(loss), net	2,839	—	(84)	(84)	—		2,755
Interest expense	(1,889)	(871)	—	(871)	(5,382)	6(e)	(8,142)
Other income, net	11,859	—	15	15	—		11,874
Income before income tax expense	**85,034**	**(964)**	**—**	**(964)**	**(16,815)**		**67,255**
Income tax expense	36,146	173	—	173	(13,402)	6(f)	22,917
Net income	**$ 48,888**	**$ (1,137)**	**$ —**	**$ (1,137)**	**$ (3,413)**		**$ 44,338**
Earnings per share:							
Basic	$ 1.44						$ 1.30
Diluted	$ 1.39						$ 1.26
Weighted-average number of shares used in computing earnings per share:							
Basic	33,897,916					6(g)	33,979,928
Diluted	35,110,210					6(g)	35,214,913

(1) As per SCIO's audited consolidated financial statements for the year ended December 31, 2017.

(2) The adjustments represent reclassification of items of SCIO's audited statement of operations for the year ended December 31, 2017 to be consistent with EXL's presentation.

(3) Exclusive of depreciation and amortization.

(4) SCIO's audited statement of operations for the year ended December 31, 2017 do not present the measure of gross profit, accordingly a gross profit measure for SCIO and reclassifications have been intentionally left blank.

See the accompanying notes to the unaudited pro forma condensed combined financial statements which are an integral part of these unaudited proforma financial statements.

EXLSERVICE HOLDINGS, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

AS OF JUNE 30, 2018

(In thousands, except share and per share amounts)

					Pro Forma		
	EXL (A)	**SCIO[1] (B)**	**Reclassifications[2] (C)**	**SCIO Adjusted (D=B+C)**	**Note**	**Adjustments (E)**	**Note**	**Combined (A+D+E)**
Assets								
Current assets:								
Cash and cash equivalents	$ 84,091	$ 10,026	$ —	$ 10,026		$ (8,440)	6(h)	$ 85,677
Short-term investments	149,045	—	—	—		—		149,045
Restricted cash	2,256	—	2,790	2,790	7(a)	—		5,046
Cash received on behalf of customers	—	2,790	(2,790)	—	7(a)	—		—
Accounts receivable, net	147,099	6,078	13,846	19,924	7(b)	—		167,023
Unbilled revenue	—	13,846	(13,846)	—	7(b)			—
Prepaid expenses	9,963	—	1,317	1,317	7(c)	—		11,280
Advance income tax, net	11,278	—	—	—		—		11,278
Other current assets	23,002	2,247	(1,317)	930	7(c)	88	6(i)	24,020
Total current assets	**426,734**	**34,987**	**—**	**34,987**		**(8,352)**		**453,369**
Property and equipment, net	66,112	8,859	(5,397)	3,462	7(d)	—		69,574
Restricted cash	3,645	—	—	—		—		3,645
Deferred taxes	12,702	210	—	210		—		12,912
Intangible assets, net	41,170	2,390	5,397	7,787	7(d)	75,113	6(j)	124,070
Goodwill	200,981	17,511	—	17,511		135,704	6(k)	354,196
Other assets	36,033	1,450	—	1,450		299	6(l)	37,782
Investment in equity affiliate	2,886	—	—	—		—		2,886
Total assets	**$ 790,263**	**$ 65,407**	**$ —**	**$ 65,407**		**$ 202,764**		**$ 1,058,434**

EXLSERVICE HOLDINGS, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

AS OF JUNE 30, 2018

(In thousands, except share and per share amounts)

						Pro Forma		
	EXL (A)	SCIO[1] (B)	Reclassifications[2] (C)	SCIO Adjusted (D=B+C)	Note	Adjustments (E)	Note	Combined (A+D+E)
Liabilities and Equity								
Current liabilities:								
Accounts payable	$ 5,428	$ 324	$ —	$ 324		$ —		$ 5,752
Current portion of long-term borrowings	10,318	1,980	—	1,980		(1,980)	6(m)	10,318
Deferred revenues	10,448	—	1,038	1,038	7(e)	—		11,486
Accrued employee cost	33,338	—	2,715	2,715	7(e)	—		36,053
Accrued expenses and other current liabilities	59,882	8,777	(1,129)	7,648	7(e)	(1,301)	6(n)	66,229
Current portion of capital lease obligations	223	—	185	185	7(e)	—		408
Income tax payable	—	208	—	208		—		208
Subrogation services obligations	—	2,798	(2,798)	—	7(e)	—		—
Overpayment services obligations	—	11	(11)	—	7(e)	—		—
Total current liabilities	**119,637**	**14,098**	**—**	**14,098**		**(3,281)**		**130,454**
Long term borrowings	57,326	8,950	—	8,950		224,050	6(m)	290,326
Capital lease obligations, less current portion	270	—	—	—		—		270
Income tax payable	8,721	—	—	—		—		8,721
Other non-current liabilities	18,830	209	165	374	7(f)	—		19,204
Deferred taxes	—	2,274	—	2,274		17,626	6(o)	19,900
Liability for employee benefits	—	165	(165)	—	7(f)	—		—
Total liabilities	**204,784**	**25,696**	**—**	**25,696**		**238,395**		**468,875**
Preferred stock	—	66	—	66		(66)	6(p)	—
Common stock	38	16	—	16		(16)	6(p)	38
Additional paid-in-capital	334,643	32,235	—	32,235		(28,155)	6(q)	338,723
Retained earnings	465,138	—	8,188	8,188	7(g)	(8,188)	6(r)	465,138
Accumulated surplus	—	8,188	(8,188)	—	7(g)	—		—
Accumulated other comprehensive loss	(87,621)	(794)	—	(794)		794	6(r)	(87,621)
Total including shares held in treasury	**712,198**	**39,711**	**—**	**39,711**		**(35,631)**		**716,278**
Less: Treasury stock	(126,952)	—	—	—		—		(126,952)
Stockholders' equity	**$ 585,246**	**$ 39,711**	**$ —**	**$ 39,711**		**$ (35,631)**		**$ 589,326**
Non-controlling interest	233	—	—	—		—		233
Total equity	**$ 585,479**	**$ 39,711**	**$ —**	**$ 39,711**		**$ (35,631)**		**$ 589,559**
Total liabilities and equity	**$ 790,263**	**$ 65,407**	**$ —**	**$ 65,407**		**$ 202,764**		**$ 1,058,434**

(1) As per SCIO's unaudited consolidated financial statements as of June 30, 2018.
(2) The adjustments represent reclassification of items from SCIO's unaudited balance sheet as of June 30, 2018 to be consistent with EXL's presentation.

See the accompanying notes to the unaudited pro forma condensed combined financial statements which are an integral part of these unaudited proforma financial statements.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

(In thousands, except share and per share amounts)

1. Description of Transaction

On July 2, 2018, ExlService Holdings, Inc. (the “Company” or “EXL”) filed a Current Report on Form 8-K with the Securities and Exchange Commission (the “SEC”) reporting that on July 1, 2018 (the "Acquisition Date"), the Company completed the acquisition (the “merger” or the “acquisition”) of SCIOinspire Holdings Inc. (“SCIO”), pursuant to the terms of the Agreement of Merger dated April 28, 2018 (the "Merger Agreement") among the Company; SCIO, a West Hartford CT-based corporation; ExlService.com, LLC (“EXL LLC”), a Delaware corporation and a wholly owned subsidiary of the Company; ExlService Cayman Merger Sub (“Merger Sub”), a Cayman Island corporation and a wholly owned transitory subsidiary of EXL LLC; and Angler Seller Shareholder Representative LLC, a limited liability company as representative of the equity holders of SCIO and certain indemnifiable matters under the Agreement of Merger (“Merger Agreement”). The aggregate purchase consideration for the acquisition was $236,500, subject to certain post-closing adjustments. Immediately prior to the consummation of the merger, certain members of the senior management team of SCIO exchanged $4,080 in shares of SCIO for 69,459 newly-issued shares of restricted common stock of the Company in a private exchange. To finance the acquisition at Closing, the Company utilized its revolver credit facility in the amount of $233,000 and balance with available cash on hand.

2. Basis of Presentation

The acquisition will be accounted for under the acquisition method of accounting in accordance with Accounting Standards Codification ("ASC") Topic 805, "Business Combinations" ("ASC Topic 805"). The Company is accounting for the acquisition by using its historical information and accounting policies and adding the assets and liabilities of SCIO, as applied on a pro forma basis as of June 30, 2018, at their respective preliminary fair values. Further, and in accordance with ASC Topic 805, the accounting policies of SCIO have been conformed to those of the Company in determining the results of operations and the amounts of assets and liabilities to be fair valued. The assets and liabilities of SCIO have been measured at their preliminary fair value based on various assumptions that the Company’s management believes are reasonable utilizing information as of the Acquisition Date.

The process for measuring the fair value of identifiable intangible assets, liabilities and certain tangible assets requires the use of significant assumptions, including estimates of future cash flows and appropriate discount rates. The excess of the purchase price over the preliminary fair value of SCIO's identifiable assets acquired and liabilities assumed, on a pro forma basis as of June 30, 2018 was allocated to goodwill in accordance with ASC Topic 805.

For purposes of measuring the fair value of the SCIO's assets acquired and liabilities assumed, as reflected in the unaudited pro forma condensed combined financial statements, the Company used the guidance in ASC Topic 820, “Fair Value Measurement and Disclosure” ("ASC Topic 820"), which establishes a framework for measuring fair values. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Market participants are buyers and sellers in the principal (most advantageous) market for the asset or liability. Additionally, under ASC Topic 820, fair value measurements for an asset assume the highest and best use of that asset by market participants.

3. Accounting Policies

The unaudited pro forma condensed combined financial statements reflect adjustments to conform the results of SCIO to the accounting policies of the Company. Differences between the respective accounting policies have not been significant requiring any material adjustment to the unaudited pro forma condensed combined financial statements.

(In thousands, except share and per share amounts)

4. **Consideration Transferred**

As noted in Note 1, the agreed upon purchase price for the acquisition was $236,500. The preliminary estimated aggregate purchase consideration is expected to total $245,133, including cash and cash equivalents acquired and subject to certain post-closing adjustments. Immediately prior to the consummation of the merger, certain members of the senior management team of SCIO exchanged $4,080 in shares of SCIO for 69,459 newly-issued shares aggregate of restricted common stock of the Company in a private exchange. To finance the acquisition at Closing, the Company utilized its revolver credit facility in the amount of $233,000 and balance with available cash on hand.

5. **Preliminary Allocation of Consideration Transferred to the Net Assets Acquired**

Pursuant to the Company's business combinations accounting policy, the total estimated purchase price for SCIO was allocated to identifiable net tangible and intangible assets based upon their preliminary fair values, assuming the merger had been completed on June 30, 2018, reconciled to the consideration paid to acquire SCIO. The excess of the estimated purchase price over identifiable net tangible and intangible assets was recorded as goodwill.

The Company's preliminary purchase price allocation for SCIO is as follows:

Assets:	
Cash and cash equivalents	$ 10,026
Current assets	24,961
Property and equipment	3,462
Other assets	1,450
Identifiable intangible assets:	
Customer relationships	47,800
Developed technology	31,400
Trademarks and trade names	3,700
	122,799
Liabilities:	
Current liabilities	(10,817)
Deferred taxes	(19,690)
Other non-current liabilities	(374)
Net assets acquired	91,918
Goodwill	153,215
Total estimated purchase consideration	**$ 245,133**

The preliminary purchase price allocation is based on preliminary estimates and assumptions, and is subject to change during the purchase price measurement period as the Company finalizes the valuations of the tangible and intangible assets.

(In thousands, except share and per share amounts)

6. **Adjustments to Unaudited Pro Forma Condensed Combined Statements of Operations and Combined Balance Sheet**

Adjustments to the unaudited pro forma condensed combined statements of operations for the six months ended June 30, 2018 and year ended December 31, 2017 were as follows:

a. Cost of revenues: Adjustments to cost of revenues reflect the impact of (a) restricted stock units of the Company granted to former SCIO employees and (b) grants under the erstwhile stock compensation plan of SCIO, as below:

	Six months ended June 30, 2018	Year ended December 31, 2017
Stock-based compensation expense	$ 179	$ 361

b. General and Administrative expenses: Adjustments to general and administrative expenses reflect the impact of (a) restricted stock units of the Company granted to former SCIO employees, (b) grants under the erstwhile stock compensation plan of SCIO and (c) acquisition-related costs incurred by the Company and SCIO, as below:

	Six months ended June 30, 2018	Year ended December 31, 2017
Stock-based compensation expense	$ 164	$ 317
Acquisition expenses	(2,616)	(589)
Total	$ (2,452)	$ (272)

c. Selling and marketing expenses: Adjustments to selling and marketing expenses reflect the impact of (a) restricted stock units of the Company granted to former SCIO employees and (b) grants under the erstwhile stock compensation plan of SCIO, as below:

	Six months ended June 30, 2018	Year ended December 31, 2017
Stock-based compensation expense	$ 131	$ 250

d. Depreciation and amortization: Adjustments to depreciation and amortization comprise of the following:

	Six months ended June 30, 2018	Year ended December 31, 2017
Elimination of SCIO's historical amortization on intangible assets and capitalized internally developed software	$ (838)	$ (1,193)
Recognition of amortization of acquired SCIO's intangible assets based on the assigned fair values and estimated useful lives	6,093	12,287
	$ 5,255	$ 11,094

(In thousands, except share and per share amounts)

e. *Interest expense:* Adjustments to interest expense comprise of the following:

	Six months ended June 30, 2018	Year ended December 31, 2017
Elimination of SCIO interest expense and debt issuance costs	$ (379)	$ (865)
Recognition of EXL's interest on revolver credit facility	4,056	6,286
Amortization of EXL's debt issuance costs of revolver credit facility	44	88
Elimination of EXL's commitment fee on unutilized revolver credit facility	(104)	(127)
Net increase to interest expense	$ 3,617	$ 5,382

A 1/8 percent increase or decrease in interest rates on revolver credit facility will impact the income before income tax by $507 for the six months ended June 30, 2018 and $786 for the year ended December 31, 2017.

f. *Income tax expense:* Adjustments represent changes to income tax expense as a result of the tax impact on the pro forma adjustments related to purchase accounting and pro forma adjustments for EXL and SCIO based on a blended statutory tax rate of 25.5%. Had the Company acquired SCIO on January 1, 2017, the income-tax expense for the six months ended June 30, 2018 and for the year ended December 31, 2017 would have decreased by approximately $2,390 and $13,402, respectively.

g. *Earning per share:* The unaudited pro forma condensed combined basic and diluted earnings per share calculations are based on EXL's consolidated basic and diluted weighted average outstanding common shares, as adjusted by common shares issued and potentially issuable on account of SCIO's acquisition.

Adjustments to the unaudited pro forma condensed combined balance sheet as of June 30, 2018, were as follows:

h. *Cash and cash equivalents*: The adjustment reflects the impact of cash on hand utilized for payment of purchase consideration, net of cash utilized from revolver credit facility.

i. *Other current assets:* The adjustment reflects the impact of debt issuance costs recognized upon availment of revolver credit facility.

j. *Intangibles assets, net*: Existing intangibles assets, net, of SCIO of $7,787 were eliminated. The adjustment reflects the preliminary fair value adjustments to intangible assets. Acquired identifiable intangible assets were measured at fair value determined primarily using the "income approach", which requires a forecast of all expected future cash flows either through the use of the relief-from-royalty method or the multi-period excess earnings method. The estimated fair value of the identifiable intangible assets and their estimated useful lives are as follows:

	Estimated useful life (in years)	Fair Value
Customer Relationships	10.0	$ 47,800
Product Technology	5.0	31,400
Trademark and trade names	3.0	3,700
		$ 82,900

k. *Goodwill:* Existing goodwill of SCIO of $17,511 was eliminated. The new goodwill recognized in the amount of $153,215 is calculated as the excess of acquisition date fair value of the consideration paid over the preliminary fair values assigned to the identifiable assets acquired and liabilities assumed. Goodwill is not amortized rather is subject to impairment testing on at least an annual basis.

(In thousands, except share and per share amounts)

l. *Other assets*: The adjustment reflects the non-current impact of the debt issuance costs recognized upon availment of revolver credit facility.

m. *Borrowings:* The adjustment reflects the elimination of SCIO's borrowings of $10,930 ($1,980 recorded as current portion of long-term borrowings and $8,950 recorded as long-term borrowings) and recognition of $233,000 of revolver credit facility used to fund the acquisition.

n. *Accrued expenses and other current liabilities:* The adjustment reflects the elimination of unpaid portion of SCIO's acquisition related costs in the amount of $1,301.

o. *Deferred taxes:* The adjustment reflects changes in deferred taxes liability of $17,626 on identifiable intangible assets recorded in connection with the merger.

p. *Preferred stock and common stock:* Adjustment to eliminate SCIO's historical preferred stock and common stock.

q. *Additional paid-in-capital:* Elimination of SCIO's Additional paid-in-capital of $32,235, adjusted by issuance of 69,459 restricted shares of common stock of the Company in the amount of $4,080.

r. *Retained earnings and accumulated other comprehensive loss:* Adjustment to eliminate SCIO's historical retained earnings and accumulated other comprehensive loss.

7. **Reclassifications**

Reclassifications made to the unaudited pro forma condensed combined balance sheet as of June 30, 2018, so as to conform to EXL's presentation, were as follows:

a. The adjustment reflects the reclassification of Client's cash from Cash received on behalf of customers to Restricted cash.

b. The adjustment reflects the reclassification of Unbilled revenue to Accounts receivable, net.

c. The adjustment reflects the reclassification of prepayments from Other current assets to Prepaid expenses.

d. The adjustment reflects the reclassification of Internally developed software from Property and equipment to Intangible assets.

e. The adjustment reflects the reclassification within current liabilities as below:

Reclassification from	Reclassification to		
Accrued expenses and other current liabilities	Deferred revenues	$	(1,038)
Accrued expenses and other current liabilities	Accrued employee cost		(2,715)
Accrued expenses and other current liabilities	Current portion of capital lease obligations		(185)
Subrogation services obligations	Accrued expenses and other current liabilities		2,798
Overpayment services obligations	Accrued expenses and other current liabilities		11
		$	(1,129)

f. The adjustment reflects the reclassification of non-current employee-related liabilities from Liability for employee benefits to Other non-current liabilities.

g. The adjustment reflects the reclassification of accumulated earnings from Accumulated surplus to Retained earnings.