

# 2015 Annual Report



## To our shareholders:

Fiscal year 2015 which ended March 31, 2015, was a strong year for Virtusa, driven by the strength of our service offerings, our differentiated value proposition, and our consistent focus on delivery excellence. We continued to make investments in our consulting and service capabilities to broaden and strengthen our differentiated solutions—solutions that squarely address the needs of our clients' core business objectives. Virtusa's solid foundation, combined with strategic investments, resulted in the expansion of our blue-chip client base across all our target industry segments and geographies, driving another year of strong revenue and profit growth. We are proud of our fiscal year 2015 accomplishments. As we continue to execute against strategy, we enter fiscal year 2016 in a strong position to achieve increased market share and above-industry growth.

For the full fiscal year 2015, our total revenue increased 21% to \$479 million, GAAP operating profit increased 24% to \$52.6 million, and GAAP diluted earnings per share increased to \$1.44 from \$1.27 in the prior fiscal year. With \$235.9 million in cash, cash equivalents, short-term and long-term investments, we ended our 2015 fiscal year with a strong balance sheet. Cash flow from operations for the full fiscal year ended March 31, 2015 was \$48.9 million.

Throughout fiscal year 2015, our growth strategy and targeted areas of investment remained focused on helping our clients address their core objectives of growing revenue, improving operating efficiencies, reducing costs and mitigating risks. To enable revenue growth, companies are seeking to expand their addressable markets through greater investments in digital solutions that meet the needs of a growing population of digital savvy consumers. We are working with our clients to address this key objective by leveraging the power of Mobile, Social and Big Data to help our clients reimagine their business models and deliver a distinctive millennial experience to their customers. Our strong heritage and unparalleled expertise in delivering IT solutions at the nexus of our clients and their customers in large service-oriented industries provide us with significant differentiation in this area and are a competitive advantage for our clients.

At the same time, we are working with our clients to optimize their business as usual operations, improve their quality of service, reduce their cost structures, and mitigate their risk through our best-in-class transformational solutions. Our industry-leading growth is a direct result of delivering on this value proposition and the receptivity of our clients to our service offerings in this area. Our broad and deep industry knowledge, combined with our differentiated platforming approach, remain at the core of our solutions and provide us with significant competitive advantage as we continue to win and execute large transformational programs. In addition, we are leveraging our existing investments and domain expertise to extend industry-specific transformational solutions into adjacent markets, allowing us to further scale the business and drive growth.

In April 2015, we acquired Apparatus, Inc., a leading provider of end-to-end IT infrastructure services. This acquisition represents a continuation of our investment strategy aimed at broadening our service capabilities to enable transformation for our clients.

Through the addition of Apparatus, we have strengthened our growing infrastructure management services ("IMS") practice and meaningfully expanded our addressable market opportunity with the addition of remote infrastructure management, IMS consulting, Cloud solutions and service design solutions.

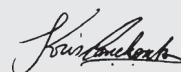
In addition to our strong competitive position and the continued enhancement of our capabilities and services, we are benefitting from our portfolio of 114 high-quality clients. We have strong, long-standing relationships across our client base, which includes some of the largest enterprises in the world, addressing their most strategic business objectives. We continue to see multiple opportunities for growth across our top-ten clients, while our pipeline of new business opportunities across our non top-ten clients continues to expand and will be an important growth driver for us in fiscal year 2016.

Finally, in fiscal 2015, we made significant progress in establishing a strong employee engagement platform that delivers a powerful and differentiated workplace experience, allowing us to be recognized as *best employer* in all the major geographies in which we do business. We have also invested significantly in building leadership skills within the organization. I am proud to announce that we are able to fill 60% of our leadership requirements with internal candidates, reflecting the leadership strength that will allow us to execute to our aggressive business growth plans.

As we look forward to fiscal year 2016, we are excited about the strong foundation we have established for Virtusa. Our platform is stronger than at any point in our history; our blue-chip client base is larger; and we have meaningful opportunity to continue gaining share within our chosen target industries. In fiscal year 2016, we will continue to differentiate Virtusa in the market through our investments in strategic initiatives such as broadening our portfolio of digital solutions, expanding the number of industry leading transformational solution offerings, and growing our infrastructure management services. We believe that our thought leadership, differentiated solutions, and strategic investments in the business will result in continued above-industry growth and increased shareholder value.

We are proud of what we have accomplished in fiscal year 2015, and we are optimistic about the future of Virtusa. On behalf of the Virtusa board of directors, we would like to thank our clients and shareholders for their ongoing support and our global team members who consistently provide the highest levels of service excellence to our clients.

Sincerely,



**Kris Canekaratne**  
Chairman and Chief Executive Officer  
July 24, 2015

The discussion set forth in the preceding letter to our shareholders and in the annual report that follows it contains express or implied forward-looking statements concerning our expectations and beliefs, including, without limitation, expectations and assumptions concerning management's forecast of financial performance, the performance of our IT services, acquisition of new clients and growth of business with our existing clients, the ability of our clients to realize benefits from the use of our IT services, existing and new service offerings, recruiting efforts, strategic investments, and management's plans, objectives and strategies. See the discussion of uncertainties, risks and assumptions associated with these statements in Item 1A of our enclosed annual report on Form 10-K, under the heading, "Risk Factors."

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

**Form 10-K**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2015

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from

to

Commission File Number 001-33625

**VIRTUSA CORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

04-3512883  
(I.R.S. Employer  
Identification Number)

2000 West Park Drive  
Westborough, Massachusetts 01581  
(Address of principal executive office)

(508) 389-7300  
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

Common Stock, \$0.01 par value per share  
(Title of each class)

The NASDAQ Stock Market LLC  
(Name of exchange on which registered)

**Securities registered pursuant to Section 12(g) of the Act:**  
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Note—Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

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

The aggregate market value of the registrant's voting and non-voting shares of common stock held by non-affiliates of the registrant on September 30, 2014, based on \$35.56 per share, the last reported sale price on the Nasdaq Global Select Market on that date, was \$976,916,126.

The number of shares outstanding of each of the issuer's class of common stock as of May 15, 2015:

Class	Number of Shares
Common Stock, par value \$0.01 per share	29,647,865

**DOCUMENTS INCORPORATED BY REFERENCE**

The registrant intends to file a definitive Proxy Statement for its 2015 annual meeting of stockholders pursuant to Regulation 14A within 120 days of the end of the fiscal year ended March 31, 2015. Portions of the registrant's Proxy Statement are incorporated by reference into Part III of this Form 10-K. With the exception of the portions of the Proxy Statement expressly incorporated by reference, such document shall not be deemed filed with this Form 10-K.

**VIRTUSA CORPORATION**  
**ANNUAL REPORT ON FORM 10-K**  
**Fiscal Year Ended March 31, 2015**  
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## Part I

*This Annual Report on Form 10-K (the “Annual Report”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the “safe harbor” created by those sections. These statements relate to, among other things, our expectations concerning the growth of our business, the ability of our clients to realize benefits from the use of our IT services; projections of financial results, the results of our operations and our financial condition; our competitive landscape; the impact of new accounting pronouncements; future capital requirements and capital expenditures; market risk exposures; customer contracts; our service delivery mix and our plans, strategies and objectives for our company and our future operations. Any statements about our expectations, beliefs, plans, objectives, assumptions, future events or performance or similar subjects are not historical facts and may be forward-looking. Some of the forward-looking statements can be identified by the use of forward-looking terms such as “believes,” “expects,” “may,” “will,” “should,” “seek,” “intends,” “plans,” “estimates,” “projects,” “anticipates,” or other comparable terms. These forward-looking statements involve risk and uncertainties. We cannot guarantee future results, levels of activity, performance or achievements, and you should not place undue reliance on our forward-looking statements. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those set forth in “Item 1A. Risk Factors” and elsewhere in this Annual Report. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or strategic investments. Except as may be required by law, we have no plans to update these forward-looking statements to reflect events or circumstances after the date of this report. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q and Form 8-K reports to the Securities and Exchange Commission (the “SEC”).*

### **Item 1. Business.**

#### **Overview**

Virtusa Corporation (the “Company”, “Virtusa”, “we”, “us” or “our”) is a global information technology services company. We use an enhanced global delivery model to provide end-to-end information technology (“IT”) services to Global 2000 companies. These services include IT and business consulting, user experience (“UX”) design, development of IT applications, maintenance and support services, systems integration, infrastructure and managed services. Our services leverage our distinctive consulting approach, deep domain knowledge, and unique platforming methodology to transform our clients’ businesses through the innovative use of technology to solve critical business problems. Our services enable our clients to accelerate business outcomes by consolidating, rationalizing and modernizing our clients’ core customer-facing processes into one or more core systems. We deliver cost-effective solutions through a global delivery model, applying advanced methods such as Agile, an industry standard technique designed to accelerate application development. We also use our consulting methodology, which we refer to as Accelerated Solution Design (“ASD”), which is a collaborative decision-making and design process performed with the client, to ensure our solutions meet the client’s specifications and requirements. We have targeted our solution offerings to enable our clients to reduce their IT operations cost, while simultaneously increasing their ability to accelerate business growth in existing and new market segments. We further differentiate ourselves by enabling our clients to expand their addressable market through our millennial offerings and to improve the efficiencies of operating their business through our industry leading transformational solutions.

Headquartered in Massachusetts, we have offices in the United States, the United Kingdom, Germany, Sweden and Austria, with global delivery centers in India, Sri Lanka, Hungary, Singapore and Malaysia, as well as a near shore delivery center in the United States.

We support the Chief Information Officers (“CIOs”) of our client organizations in solving their most critical issues, including reducing total cost of ownership, accelerating time-to-market, increasing productivity and enhancing the customer experience delivered by their organizations. Our clients’ CIOs are continually confronting the dual challenge of their organizations’ need to invest in new technological innovations to support business growth, while also trying to improve the efficiencies of IT operations and their return on investment (“ROI”) from such IT investments. Our millennial solutions support the business growth imperative by delivering targeted and differentiated solutions that help our clients expand their addressable markets as well as develop go-to-market strategies supporting new revenue streams. To improve IT efficiencies and reduce the cost of IT operations, we help our clients consolidate applications into platforms, rationalize IT infrastructure, and deliver transformational, industry-focused solutions, thereby enabling our clients to deliver modern, efficient and agile enterprise application platforms. Our deep expertise in core technology services allows us to help our clients to lower total cost of ownership of their overall IT investments. We also combine industry specialization with our core services to deliver high-impact solutions in critical business functions that help our clients transform their business performance and gain competitive advantage in the markets in which they operate.

We operate in markets and industries where the combination of a growing millennial population and rapid advances in key technologies like mobility, big data analytics, social media and cloud computing, are providing disruptive opportunities for progressive business leaders to break-down barriers and expand market-share. We enable our clients to leverage technology innovations to provide a distinctive millennial experience commensurate with the expectations of digital consumers who are increasingly looking for services that are available 24x7 without interruption, location aware and highly customized to their social likes and dislikes. As part of our millennial enablement solutions, we provide end-to-end consulting, user experience design, technology selection, and implementation and support services, which allow our clients to understand emerging consumer demand in their markets of operation and develop, and execute to, a roadmap to transform their business and enhance their competitive differentiators.

We deliver our services using our enhanced global delivery model which leverages a highly efficient onsite-to-offshore service delivery mix and proprietary tools and processes to manage and accelerate delivery, foster innovation and promote continual improvement of outcomes delivered to our clients. Our global service delivery teams work seamlessly at our client locations and at our global delivery centers in India, Sri Lanka, Hungary, Singapore and Malaysia, as well as in our near shore center in the United States, to provide value-added services rapidly and cost-effectively. Our teams do this by using our enhanced global delivery model, which we manage to a targeted 25/75 onsite-to-offshore service delivery mix, although such delivery mix may be impacted by several factors, including our new and existing client delivery requirements.

We apply our innovative platforming approach across all of our services. Through our platforming approach, we help our clients combine common business processes and rules, technology frameworks and data into reusable application platforms that can be leveraged across the enterprise to build, maintain and enhance existing and future applications. Our platforming approach enables our clients to continually improve their software platforms and applications in response to changing business needs and evolving technologies, while also allowing them to improve business agility, realize long-term and ongoing cost savings and improve their ROI. Our platforming methodology also reduces the effort and cost required to develop and maintain IT applications by streamlining and consolidating our clients’ applications on an ongoing basis. We believe that our solutions provide our clients with the consultative and high-value services associated with large consulting and systems integration firms, the cost-effectiveness associated with offshore IT outsourcing firms and the ongoing benefits of our innovative platforming approach.

We provide our IT services primarily to enterprises engaged in the following industries: communications and technology (“C&T”); banking, financial services and insurance (“BFSI”); and media and information (“M&I”). Our current clients include leading global enterprises such as AIG Global Services, Inc. (primarily through its affiliates, Chartis Global Claims Services, Inc. and Chartis Global

Services, Inc.) (“AIG”), JPMorgan Chase Bank, N.A. (“JPMC”), British Telecommunications plc (“BT”), Aetna Life Insurance Company, Thomson Reuters (Healthcare) Inc., and leading enterprise software developers. We have a high level of repeat business among our clients. For instance, during the fiscal year ended March 31, 2015, 87% of our revenue came from clients to whom we had been providing services for at least one year. Our top ten clients accounted for approximately 52%, 57% and 60% of our total revenue in the fiscal years ended March 31, 2015, 2014 and 2013, respectively. Our largest client for the fiscal year ended March 31, 2015, BT, accounted for 12.4% of our total revenue. During the fiscal years ended March 31, 2014 and 2013, BT accounted for 12.7% and 10.9% of our total revenue, respectively. During the fiscal years ended March 31, 2015, 2014 and 2013, AIG accounted for 10.5%, 12.5% and 14.4%, and JPMC accounted for 9.1%, 9.8% and 13.7% of our total revenue, respectively. We have a Global Frame Contract with BT and master services agreements with each of AIG and JPMC.

On January 31, 2012, Virtusa UK Limited, our UK subsidiary, entered into a Global Frame Contract with BT, as amended (the “GFA”), which established Virtusa UK Limited as a preferred, but non-exclusive, vendor of BT for the provision of IT services to BT and its affiliates. The GFA replaced Virtusa UK Limited’s previously disclosed master services agreement with BT dated March 29, 2007, as amended (the “MSA”), in its entirety. The GFA added rate cards specific to certain other geographic locations not previously covered by the MSA and updated certain rate card pricing terms from those in the MSA. In addition, the GFA contains provisions regarding insurance, indemnities, limitations of liability and confidentiality that are materially similar to those contained in the MSA, as well as other provisions relating to warranty, service levels, liquidated damages and other customary terms and conditions. The term of the GFA extends through September 30, 2015, although the GFA may be terminated sooner by either party in the event of, among other things, an uncured, material breach of the other party or by BT upon 90 days prior written notice. BT may also terminate without liability upon certain other conditions, including changes in control of Virtusa UK Limited.

On May 15, 2015, we executed a new master professional services agreement (“MPSA”) with AIG which replaces the prior services agreement with AIG, dated April 25, 2008, as amended (“2008 MSA”). The MPSA has a perpetual term, but may be terminated sooner by either party in the event of, among other things, an uncured, material breach of the other party or by AIG for convenience upon 30 days prior written notice. The MPSA included rate cards specific to certain other geographic locations not previously covered by 2008 MSA as well as provisions regarding insurance, indemnities, limitations of liability and confidentiality that are materially similar to those contained in the prior agreement, as well as other provisions relating to warranty, service levels, liquidated damages and other customary terms and conditions.

Our current master services provider agreement with JPMC, dated December 6, 2004, as amended, expires on December 31, 2015. The agreement with JPMC generally may be terminated without additional liability by JPMC for convenience on 30 days written notice, as well as by either party upon an uncured, material breach of the other party. There can be no assurance that these agreements will not be terminated or further amended prior to the end of their terms. None of these agreements have minimum purchase commitments with us. These agreements also contain provisions for warranties, insurance, indemnification, limitations of liability, liquidated damages and other customary terms and conditions.

### **Our approach to global IT services**

Our expertise in supporting a broad range of IT services, ability to engage through a global delivery model that optimizes outcomes and use of proprietary methodologies like platforming to improve IT efficiencies, allow us to be a trusted partner to our clients for their end-to-end IT services requirements.

***Broad range of IT services.*** We provide a broad range of IT services, either individually or as part of an end-to-end solution, from business and IT consulting, and technology implementation to application outsourcing. We have significant domain expertise in IT-intensive industries, such as C&T, BFSI and M&I.

We have designed our portfolio of IT services and solutions to enable our clients to improve business performance, use IT assets more efficiently and optimize IT costs.

**Enhanced global delivery model.** We provide our services through our enhanced global delivery model that leverages a highly-efficient onsite-to-offshore service delivery mix and proprietary tools and processes to manage and accelerate delivery, foster innovation and promote continual improvement of outcomes delivered to our clients.

**Platforming approach.** We apply our innovative platforming approach across our IT consulting, technology implementation and application outsourcing services to rationalize IT application portfolios and reduce costs, increase productivity and improve the efficiency and effectiveness of our clients' IT application environments.

## Our services

**Business and IT consulting services.** We provide business and IT consulting services to assist our clients in more effectively managing their continually-changing IT environments and aligning their IT investments to better support current and future business requirements. Our business consulting services allow clients to mitigate risks and execute successful IT programs by enabling stakeholder alignment, formulating the business case and ROI and defining agreed-upon end outcomes using innovative techniques, such as persona development, DILO (Day-in- the-life-of) journeys and rapid prototyping for each project. We also assist clients in assessing new approaches to improve revenue opportunities within existing markets, developing new products/solutions for existing and new markets and improving retention and share-of-wallet through a better understanding of customer behavior and engagement. The goal of our IT consulting group is to help our clients continually improve the performance of their IT application environments by adopting and evolving towards re-useable software platforms. We help clients analyze business and/or technology problems and identify and design platform-based solutions. We also assist our clients in planning and executing their IT initiatives and transition plans.

Our business and IT consulting services include the following assessment and planning, architecture and design and governance-related services:

Assessment and Planning Services	Architecture and Design Services	Governance-related Services
<ul style="list-style-type: none"> <li>• application inventory and portfolio assessment</li> <li>• business/technology alignment analysis</li> <li>• business process optimization</li> <li>• quality assurance process consulting</li> </ul>	<ul style="list-style-type: none"> <li>• accelerated solution design <ul style="list-style-type: none"> <li>• conceptual design and roadmap</li> <li>• customer experience design</li> <li>• solution selection</li> <li>• solution design</li> </ul> </li> <li>• enterprise architecture analysis</li> <li>• technology roadmaps</li> <li>• product evaluation and selection</li> <li>• business process analysis and design</li> </ul>	<ul style="list-style-type: none"> <li>• program governance and change management</li> <li>• program management planning</li> <li>• complex program management</li> </ul>

During our consulting engagements, we often leverage proprietary frameworks and tools to differentiate our services from our competitors and to accelerate delivery. Examples of our unique frameworks and tools include our Strategic Enterprise Information Roadmap Framework, which is a structured service offering for recommending the right IT platform, solution architecture, transition strategy and approach to meet current and future business requirements, our Business Process Visualization tools, which enable us analyze, design and optimize enterprise business processes, and ASD.

We have also invested in our consulting services to help our clients effectively manage large, complex IT programs, and evaluate and develop strategies to millennial-enable their enterprises for the digital consumer, and support the development of new, differentiated customer experience improvement programs.

We believe that our consulting services are further differentiated by our ability to leverage our global delivery model across our engagements. Our onsite teams work directly with our clients to understand and analyze the current-state problems and to design conceptual solutions. Our offshore teams work seamlessly with our onsite teams to design and expand the conceptual solution, research alternatives, perform detailed analyses, develop prototypes and proofs-of-concept and produce detailed reports. We believe that this approach reduces cost, allows us to explore more alternatives in the same amount of time and improves the quality of our deliverables.

**Technology implementation services.** Our technology implementation services involve building, testing, deploying, maintaining and supporting IT applications, and consolidating and rationalizing our clients' existing IT applications and environments into platforms. Leveraging our deep skills in software engineering and our expertise in the innovative use of technology to solve business problems, we assist our clients' CIOs in making the right decisions on technology platform selection, support the implementation of core application systems and help solve critical business problems, while ensuring that the CIO's IT asset estate remains optimized, cost-effective and supports current and future business requirements.

Our technology implementation services include the following development, legacy asset management, information management and testing services:

Development Services	Legacy Asset Management Services	Information Management Services	Testing Services
<ul style="list-style-type: none"> <li>• application development</li> <li>• package implementation and integration</li> <li>• software product engineering</li> <li>• application maintenance and support</li> <li>• business process management services</li> <li>• CRM implementations</li> <li>• SAP implementations</li> <li>• customer experience and content management services</li> <li>• enterprise mobility services</li> <li>• cloud computing</li> <li>• social media solutions</li> </ul>	<ul style="list-style-type: none"> <li>• systems consolidation and rationalization</li> <li>• technology migration and porting</li> <li>• web-enablement of legacy applications</li> </ul>	<ul style="list-style-type: none"> <li>• data management services</li> <li>• business intelligence, reporting and decision support</li> <li>• master data management</li> <li>• data integration</li> <li>• big data analytics</li> </ul>	<ul style="list-style-type: none"> <li>• software quality assurance</li> <li>• testing frameworks</li> <li>• automation of test data and cases</li> <li>• test cycle execution</li> <li>• performance testing</li> <li>• managed testing services</li> </ul>

Our technology implementation services span a variety of capabilities from custom application development, testing, maintenance and support services and packaged software implementation services. We have extensive and deep partnerships with leading technology platform vendors. We have incorporated rapid, iterative development techniques into our approach, extensively employing prototyping, solution demonstration labs and other collaboration tools that enable us to work closely with our clients to understand and deliver to their most challenging business requirements. Leveraging our business consulting services with advanced techniques like our ASD workshops, we are able to develop and deploy applications quickly, often within solution delivery cycles of less than three months.

**Application outsourcing services.** We provide a broad set of IT application outsourcing services that enable us to provide comprehensive support for our clients' needs to manage and maintain their software applications and platforms cost-effectively. We endeavor to continually improve the applications under our

management and to evolve our clients' IT applications into platforms. We combine a deep understanding of software engineering with an innovation mindset to provide targeted outsourcing services that not only help reduce the cost of existing IT operations, but also improve the quality of applications over time.

Our application outsourcing services include the following application and platform management, infrastructure management and software quality assurance management services:

Application and Platform Management Services	Infrastructure Management Services	Software Quality Assurance Management Services
<ul style="list-style-type: none"> <li>• production support</li> <li>• maintenance and enhancement of custom-built and package-based applications</li> <li>• ongoing software engineering services for software companies</li> </ul>	<ul style="list-style-type: none"> <li>• systems administration</li> <li>• database administration</li> <li>• monitoring</li> </ul>	<ul style="list-style-type: none"> <li>• outsourcing of quality assurance planning</li> <li>• preparation of test cases, scripts and data</li> <li>• execution of test cases, scripts and data</li> </ul>

We believe that our application outsourcing services are differentiated because they are based on the principle of migrating installed applications to flexible platforms that can sustain further growth and business change. We do this by:

- developing a roadmap for the evolution of applications into platforms
- establishing an ongoing planning and governance process for managing change
- analyzing applications for common patterns and services
- identifying application components that can be extended or enhanced as core components
- integrating new functions, features and technologies into the target architecture

We are also investing in offshore global delivery centers to provide infrastructure management services ("IMS") and IT support related services to our clients, helping them manage their IT operations effectively through an offshore outsourced model.

To strengthen our IMS practice and solution offerings and enable us to deliver network operating center ("NOC") support through our nearshore facility in the United States, as well as IMS services globally, on April 1, 2015, we acquired all of the outstanding shares of Apparatus, Inc., a leading provider of end-to-end IT infrastructure services headquartered in Indianapolis, Indiana ("Apparatus").

**Global delivery model.** We have developed an enhanced global delivery model that allows us to provide innovative IT services to our clients in a flexible, cost-effective and timely manner by leveraging an efficient onsite-to-offshore service delivery mix and our proprietary Global Innovation Process ("GIP"), and also enables us to manage and accelerate delivery, foster innovation and promote continual improvement. We manage to a targeted 25% to 75% onsite-to-offshore service delivery mix, which allows us to provide value-added services rapidly and cost-effectively. During the past four fiscal years, we performed at least 78% of our total annual billable hours at our offshore global delivery centers. However, for the fiscal year ending March 31, 2015, we anticipate the onsite ratio to slightly increase due to new client engagements and existing work on larger, more complex programs requiring a larger onsite presence. Our delivery mix may also fluctuate from time to time due to several other factors, including new and existing client delivery requirements, as well as the impact of any acquisitions. Using our global delivery model, we generally maintain onsite teams at our clients' locations and offshore teams at one or more of our global delivery centers. Our onsite teams are generally composed of program and project managers, industry experts and senior business and technical consultants. Our offshore teams are generally composed of project managers, technical architects, business analysts and technical consultants. These teams are typically linked together

through common processes and collaboration tools and a communications infrastructure that features secure, redundant paths enabling seamless global collaboration. Our global delivery model enables us to provide around-the-clock, world-class execution capabilities that span multiple time zones.

All our major delivery centers, located in Hyderabad, Chennai, Bangalore and Colombo have been assessed at CMMI Level 5 maturity. During our fiscal year ended March 31, 2015, as part of the annual CMMI assessment process, the Chennai and Colombo delivery centers, assessed first in fiscal year 2013, completed the annual reassessment process to maintain their CMMI Level 5 rating. CMMI is a process improvement model used to improve a company's ability to manage project deliveries to ensure predictable results. CMMI's process levels are regarded as the standard in the industry for evolutionary paths in software and systems development and management.

Our enhanced global delivery model is built around our proprietary GIP, which is a software lifecycle methodology that combines our decade-long experience building platform-based solutions for global clients with leading industry standards such as Rational Unified Process, eXtreme Programming, Capability Maturity Model and Product Line Engineering. By leveraging GIP templates, tools and artifacts across diverse disciplines such as requirements management, architecture, design, construction, testing, application outsourcing and production support, each team member is able to leverage software engineering and platforming best practices and extend these benefits to clients.

During the initial process-tailoring phase of an engagement, we work with the client to define the specific approach and tools that will be used for the engagement. This process-tailoring takes into consideration the client's business objectives, technology environment and currently-established development approach. We believe our innovative approach to adapting proven techniques into a custom process has been an important differentiator that allows us to deliver substantially greater value to our clients in a cost-effective and timely manner. For example, a large high-tech manufacturer engaged us to use our process-tailoring approach to design a common, standards-based development process for use by its own product development teams.

The backbone of GIP is our global delivery operations infrastructure. This infrastructure combines enabling tools and specialized teams that assist our project teams with important enabling services such as workforce planning, knowledge management, integrated process and program management and operational reporting and analysis.

Two important aspects of our global delivery model are innovation and continual improvement. A dedicated process group provides three important functions: they continually monitor, test and incorporate new approaches, techniques, tools and frameworks into GIP; they advise project teams, particularly during the process-tailoring phase; and they monitor and audit projects to ensure compliance. New and innovative ideas and approaches are broadly shared throughout the organization, selectively incorporated into GIP and deployed through training. Clients also contribute to innovation and improvement as their ideas and experiences are incorporated into our body of knowledge. We also seek regular informal and formal client feedback. Our global leadership and executive team regularly interact with client leadership and each client is typically given a formal feedback survey on a quarterly basis. Client feedback is qualitatively and quantitatively analyzed and forms an important component of our teams' performance assessments and our continual improvement plans.

***Platforming approach.*** We apply our innovative platforming approach across our business and IT consulting, technology implementation and application outsourcing services to rationalize IT application portfolios and reduce costs, increase productivity and improve the efficiency and effectiveness of our clients' IT application environments. As part of our platforming approach, we assess our clients' application environments to identify common elements, such as business processes and rules, technology frameworks and data. We incorporate those common elements into one or more application platforms that can be leveraged across the enterprise to build, enhance and maintain existing and future applications in a leaner environment. Our platforming approach enables our clients to continually improve their software

platforms and applications in response to changing business needs and evolving technologies while also realizing long-term and ongoing cost savings.

Our platforming approach is embodied in a set of proprietary processes, tools and frameworks that address the fundamental challenges confronting IT executives. These challenges include managing the rising costs of technology ownership, while simultaneously supporting business demands to foster innovation, accelerate time-to-market, improve service and enhance productivity. Our platforming approach draws from analogs in industries that standardize on platforms composed of common components and assemblies used across multiple product lines. Similarly, we work with our clients to evolve their diverse software assets into unified, rationalized software platforms. Our platforming approach leads to simplified and standardized software components and assemblies that work together harmoniously and readily adapt to support new business applications. For example, a software platform for trading, once developed within an investment bank, can be the foundation for the bank's diverse trading applications in equities, bonds and currencies. Our platforming approach stands in contrast to traditional enterprise application development projects, where different applications remain separate and isolated from each other, replicating business logic, technology frameworks and enterprise data.

At the center of our platforming approach is a five-level maturity framework that allows us to adapt our service offerings to meet our clients' unique needs. Level 1 maturity in our platforming approach represents traditional applications where every line of code is embedded and unique to the application and every application is monolithic. Level 2 applications are less monolithic and more flexible and demonstrate characteristics such as configurability and customizability. Level 3 applications are advanced applications where the common code components and software assets are leveraged across multiple application families and product lines. Level 4 applications are framework-driven where the core business logic is reused with appropriate custom logic built around it. At the highest level of maturity are Level 5 applications, where platforms are greatly leveraged to simplify and accelerate application development and maintenance. At lower levels of maturity, few assets are created and reused. Consequently, agility, total cost of ownership and ability to quickly meet business needs are sub-optimal. As organizations mature along this continuum, from Level 1 to Level 5, substantial intellectual property is created and embodied in software platforms that enable steady gains in agility, reduce overall cost of ownership and accelerate time-to-market for business applications and services.

Our platforming approach improves software quality and IT productivity. Software assets within platforms are reused across applications, their robustness and quality improve with time and our clients are able to develop software with fewer defects. A library of ready-made building blocks significantly enhances productivity and reduces software development risks compared to traditional methods. This establishes a cycle of continual improvement in that the more an enterprise embraces platform-based solutions, the better the quality of its applications will be, and the less the effort required to build, enhance and maintain them.

## **Our IT solutions**

**Core solutions.** We have designed our solutions to enable clients to improve core customer business processes resulting in high impact business outcomes, including reducing total cost of ownership, accelerating time to market and enhancing our clients' customer experience. We use proprietary business consulting methodologies like ASD to help clients improve accuracy and scope of the solution being delivered, align organizational stakeholders on common, shared objectives, and accelerate the solution development process. Our unique platforming methodology helps clients rationalize their IT application infrastructure and develop lean, optimized enterprise application platforms that significantly lower the cost of maintenance, while improving the agility of the business to respond to emerging market demands.

We provide the following specific core solutions across IT and business consulting, technology and application outsourcing areas:

IT & Business Consulting	Platforming	Solutions	Application Outsourcing
<ul style="list-style-type: none"> <li>• accelerated solution design (“ASD”)</li> <li>• business process re-engineering</li> </ul>	<ul style="list-style-type: none"> <li>• lean outcomes</li> <li>• one process, one platform</li> </ul>	<ul style="list-style-type: none"> <li>• business process management</li> <li>• enterprise content management</li> <li>• data warehousing &amp; business intelligence</li> <li>• mobility</li> <li>• cloud computing</li> </ul>	<ul style="list-style-type: none"> <li>• quality assurance testing</li> <li>• managed services</li> </ul>

Our expertise in emerging solutions across core technologies like business process management, enterprise content management, data warehousing and business intelligence, mobility, and cloud computing allow us to provide solutions to our clients’ critical business problems, such as improving operating efficiencies, reducing customer churn and improving retention, and enhancing risk management through better compliance and regulatory adherence. Our core outsourcing offerings, which include quality assurance testing and managed services, help our clients improve the quality of their software assets, resulting in lower cost of maintenance, improved manageability of software assets and lower risk to the business due to software defects. Our managed services offerings deliver our clients enhanced value in the managing of their software assets through innovative engagement models built around concepts like outcome-based costing.

**Transformational solutions.** We act as trusted advisors to our clients, combining our core services with deep industry specialization, to deliver transformational solutions that help position our clients’ businesses for competitive advantage in their chosen markets.

Our transformational solutions across IT and business consulting, platforming, technology and application outsourcing areas include:

IT & Business Consulting	Platforming	Solutions	Application Outsourcing
<ul style="list-style-type: none"> <li>• domain solutions</li> <li>• business process re-engineering</li> <li>• large program management</li> </ul>	<ul style="list-style-type: none"> <li>• large global platforms</li> </ul>	<ul style="list-style-type: none"> <li>• claims management</li> <li>• policy administration</li> <li>• client lifecycle management</li> <li>• know your customer</li> <li>• regulatory &amp; compliance</li> <li>• billing systems</li> <li>• customer experience management</li> </ul>	<ul style="list-style-type: none"> <li>• application support &amp; maintenance platforms</li> </ul>

We leverage our business consulting expertise to manage large, complex programs and deliver critical business process re-engineering advice to our clients. We have recently expanded our platforming expertise to cover large programs impacting global business platforms and multi-country implementations. The industry and domain expertise we have developed over the past decade has helped us develop business solutions like claims management and policy administration solutions for insurance companies; client lifecycle management, know your customer, and regulatory and compliance solutions for banks; member reach and care management solutions for healthcare providers; billing solutions for telecommunication providers; and customer experience management solutions for leisure and hospitality businesses.

**Millennial solutions.** Our millennial solutions are designed to enable our clients to harness innovative technology advances in mobility, social media, cloud computing and big data analytics to modernize their IT application environments and enable their businesses to capitalize on the new wave of millennial consumer demand and expectations. Our business and IT consulting services help our clients determine the best approach to modernize their IT environments through specific solutions like gap analysis, user journey mapping, technology platform selection and consumer experience frameworks.

We offer the following solutions which enable our clients to address or serve the growing needs of the millennial generation:

<b>IT &amp; Business Consulting</b>	<b>Platforming</b>	<b>Solutions</b>	<b>Application Outsourcing</b>
<ul style="list-style-type: none"> <li>• gap analysis</li> <li>• consumer experience solutions</li> </ul>	<ul style="list-style-type: none"> <li>• application modernizations</li> </ul>	<ul style="list-style-type: none"> <li>• mobility</li> <li>• cloud computing</li> <li>• big data</li> <li>• social media</li> <li>• speed data</li> <li>• service oriented architecture</li> </ul>	<ul style="list-style-type: none"> <li>• millennial tech labs</li> <li>• 24x7 managed services</li> </ul>

We have invested in creating millennial technology labs and innovation hubs within our global delivery centers to foster the development of emerging technology solutions and enable our clients to become millennial enterprises.

## **Sales and marketing**

Our global sales, marketing and business development teams seek to develop strong relationships with IT and business executives at prospective and existing clients to establish long-term business relationships that continue to grow in size and strategic value. At March 31, 2015 and 2014, we had 206 and 163 marketing and business development full time equivalents, respectively, including sales managers, sales representatives, client service partners, account managers, telemarketers, sales support personnel and marketing professionals.

The sales cycle for our services often includes initiating contact with a prospective client, understanding the prospective client's business challenges and opportunities, performing discovery or assessment activities, submitting proposals, providing client case studies and references and developing proofs-of-concept or solution prototypes. We organize our sales teams in strategic business units by geography and with professionals who have specialized industry knowledge. This industry focus enables our sales teams to better understand the prospective client's business and technology needs and to offer appropriate industry-focused solutions.

**Sales and sales support.** Our sales and sales support teams focus primarily on identifying, targeting and building relationships with prospective clients. These teams are supported in their efforts by industry specialists, technology consultants and solution architects, who work together to design client-specific solution proposals. Our sales and sales support teams are based in offices throughout the United States, Europe and Asia.

**Account management.** We assign experienced account managers who build and regularly update detailed account development plans for each of our clients. These managers are responsible for developing strong working relationships across the client organization, working day-to-day with the client and our service delivery teams to understand and address the client's needs. Our account managers work closely with our clients to develop a detailed understanding of their business objectives and technology environments. We use this knowledge to identify and target additional consulting engagements and other outsourcing opportunities.

*Marketing.* We maintain a marketing presence in the United States, Europe, including the United Kingdom, India, Sri Lanka and Singapore. Our marketing team seeks to build our brand awareness and generate target lists and sales leads through industry events, press releases, thought leadership publications, direct marketing campaigns and referrals from clients, strategic alliances and industry analysts. The marketing team maintains frequent contact with industry analysts and experts to understand market trends and dynamics.

*Strategic alliances.* We have strategic alliances with software companies, some of which are also our clients, to provide services to their customers. We believe these alliances differentiate us from our competition. Our extensive engineering, quality assurance and technology implementation and support services to software companies enable us to compete more effectively for the technology implementation and support services required by their customers. In addition, our strategic alliances with software companies allow us to share sales leads, develop joint account plans and engage in joint marketing activities.

### **Clients and industry expertise**

We market and provide our services to companies in North America, Europe and Asia. For additional discussion regarding geographic information, see note 18 to our consolidated financial statements included elsewhere in this Annual Report. A majority of our revenue for the fiscal year ended March 31, 2015 was generated from Forbes Global 2000 firms or their subsidiaries. We believe that our regular, direct interaction with senior executives at these clients, the breadth of our client relationships and our reputation within these clients as a thought leader, differentiates us from our competitors. The strength of our relationships has resulted in significant recurring revenue from existing clients. For instance, our largest client for the fiscal year ended March 31, 2015, BT, accounted for 12.4% of our total revenue. During the fiscal years ended March 31, 2014 and 2013, BT accounted for 12.7% and 10.9% of our total revenue, respectively. During the fiscal years ended March 31, 2015, 2014 and 2013, AIG accounted for 10.5%, 12.5% and 14.4%, and JPMC accounted for 9.1%, 9.8% and 13.7% of our total revenue, respectively.

We focus primarily on three industries: C&T, BFSI and M&I. We build expertise in these industries through our customer experience and industry alliances, by hiring industry specialists and by training our business analysts and other team members in industry-specific topics. Drawing on this expertise, we strive to develop industry-specific perspectives and services.

*Communications and technology.* For our communications clients, we focus on customer service, sales and billing functions and regulatory compliance and help them improve service levels, shorten time-to-market and modernize their IT environments. For our technology clients, which include hardware manufacturers and software companies, we provide a wide range of industry-specific service offerings, including product management services, product architecture, engineering and quality assurance services, and professional services to support product implementation and integration. These clients often employ cutting-edge technology and generally require strong technical skills and a deep understanding of the software product lifecycle.

*Banking, financial services and insurance.* We provide services to clients in the retail, wholesale and investment banking areas; financial transaction processors; and insurance companies encompassing life, property-and-casualty and health insurance. For our BFSI clients, we have developed industry-specific services for each of these sectors, such as an account opening framework for banks, compliance services for financial institutions and customer self-service solutions for insurance companies. The need to rationalize and consolidate legacy applications is pervasive across these industries and we have tailored our platforming approach to address these challenges.

*Media and information.* We focus primarily on solutions involving electronic publishing, online learning, content management, information workflow and mobile content delivery as well as personalization, search technology and digital rights management. Many M&I providers are focused on building common platforms that provide customized content from multiple sources, customized and delivered to many consumers using numerous delivery mechanisms. We believe our platforming approach is ideally suited to these opportunities.

## **Competition**

The IT services market in which we operate is highly competitive, rapidly evolving and subject to shifting client needs and expectations. This market includes a large number of participants from a variety of market segments, including:

- offshore IT outsourcing firms, such as Cognizant Technology Solutions Corporation, HCL Technologies Limited, Infosys Technologies Limited, iGATE Corporation, Tata Consultancy Services Limited, Tech Mahindra Limited and Wipro Limited
- consulting and systems integration firms, such as Accenture Ltd., Cap Gemini S.A., Computer Sciences Corporation, Deloitte Consulting LLP and IBM Global Services Consulting

We also occasionally compete with in-house IT departments, smaller vertically-focused IT service providers and local IT service providers based in the geographic areas where we compete. For instance on the millennial enablement side, we often compete with established digital services firms like SapienNitro, as well as smaller vendors that compete on the basis of local presence, pricing and niche solutions/capabilities.

We expect additional competition from offshore IT outsourcing firms in emerging locations such as Eastern Europe, Latin America and China, offshore IT service providers with facilities in less expensive geographies within India and lower cost, near shore centers established by our competitors to provide accelerated staffing alternatives at competitive pricing.

We believe that the principal competitive factors in our business include technical expertise and industry knowledge, a breadth of service offerings to provide one-stop solutions to clients, a well-developed recruiting, training and retention model, responsiveness to clients' business needs and quality of services. We believe that we compete favorably with respect to these factors. Many of our competitors, however, have significantly greater financial, technical and marketing resources and a greater number of IT professionals than we do. We cannot assure you that we will continue to compete favorably or that we will be successful in the face of increasing competition.

## **Human resources**

We seek to maintain a culture of innovation by aligning and empowering our team members at all levels of our organization. Our success depends upon our ability to attract, develop, motivate and retain highly-skilled and multi-dimensional team members. Our people management strategy is based on six key components: recruiting, performance management, training and development, employee engagement and communication, compensation and retention. Although not currently a material component of our people management strategy, we also retain subcontractors at all of our locations on an as needed basis for specific client engagements.

*Recruiting.* Our global recruiting and hiring process addresses our need for a large number of highly-skilled, talented team members. In all of our recruiting and hiring efforts, we employ a rigorous and efficient interview process. We also employ technical and psychometric tests for our IT professional recruiting efforts in India and Sri Lanka. These tests evaluate basic technical skills, problem-solving capabilities, attitude, leadership potential, desired career path and compatibility with our team-oriented, thought-leadership culture.

We recruit from leading technical schools in India and Sri Lanka through dedicated campus hiring programs. We maintain a visible position in these schools through a variety of specialized programs, including IT curriculum development, classroom teaching and award sponsorships. We also recruit and hire laterally from leading IT service and software product companies and use employee referrals as a significant part of our recruitment process.

*Performance management.* We have a sophisticated performance assessment process that evaluates team members and enables us to tailor individual development programs. Through this process, we assess performance levels, along with each team member's potential. We create and manage development plans, adjust compensation and promote team members based on these assessments.

*Training and development.* We devote significant resources to train and integrate all new hires into our global team. We conduct a training program for all lateral hires that teaches them our culture and value system. We provide a comprehensive training program for our campus hires that combines classroom training with on-the-job learning and mentoring. We strive to continually measure and improve the effectiveness of our training and development programs based on team member feedback.

*Employee engagement and communication.* We believe open communication is essential to our team-oriented culture. We maintain multiple communication forums, such as regular company-wide updates from senior management, complemented by team member sessions at the regional, local and account levels, as well as regular town hall sessions to provide team members a voice with management.

*Compensation.* We consistently benchmark our compensation and benefits with relevant market data and make adjustments based on market trends and individual performance. Our compensation philosophy rewards performance by linking both variable compensation and salary increases to performance.

*Retention.* To attract, retain and motivate our team members, we seek to provide an environment that rewards entrepreneurial initiative, thought leadership and performance. During the twelve months ended March 31, 2015, we experienced voluntary team member attrition at a rate of 14.7% and involuntary team member attrition at a rate of 3.7%. We remain committed to improving and sustaining our voluntary attrition levels consistent with our long-term stated goals. We define attrition as the ratio of the number of team members who have left us during a defined period to the total number of team members that were on our payroll at the end of the period. Our human resources team, working with our business units, proactively manages voluntary team member attrition by addressing many factors that improve retention, including:

- providing team members with opportunities to handle challenging technical and organizational problems and learn our platforming approach
- providing team members with clear career paths, rotation opportunities across clients and domains and opportunities to advance rapidly
- providing team members opportunities to interact with our clients and help shape their IT strategy and solutions
- creating a strong peer group work environment that pushes our team members to succeed
- creating a climate where there is a free exchange of ideas cutting across organizational hierarchy
- creating a family-oriented work environment that is fun and engaging
- recognizing team performance through highly-visible team recognition awards

At March 31, 2015, we had 9,247 team members worldwide. We also engage outside contractors from time to time to supplement our services on an as needed basis. None of our team members are covered by a collective bargaining agreement or represented by a labor union. We consider our relations with our team members to be good.

## **Network and infrastructure**

Our global IT infrastructure is designed to provide uninterrupted service to our clients. We use a secure, high-performance communications network to enable our clients' systems to connect seamlessly to each of our offshore global delivery centers. We provide flexibility for our clients to operate their engagements from any of our offshore global delivery centers by using mainstream network topologies, including site-to-site Virtual Private Networks, International Private Leased Circuits and MultiProtocol Label Switching. We also provide videoconferencing, voice conferencing and Voice over Internet Protocol capabilities to our global delivery teams and clients to enable clear and uninterrupted communication in our engagements, be it intra-company or with our clients.

We monitor our network performance on a 24x7 basis to ensure high levels of network availability and periodically upgrade our network to enhance and optimize network efficiency across all operating locations. We use leased telecommunication lines to provide redundant data and voice communication with our clients' facilities and among all of our facilities in Asia, the United States and Europe. We also maintain multiple sites across our global delivery centers in Asia, particularly our largest centers in India and Sri Lanka, and the United States back-up centers to provide for continuity of infrastructure and resources in the case of natural disasters or other events that may cause a business interruption.

Our network infrastructure and access is secured using two factor authentication, mobile data management, data leakage prevention, advanced malware protection and periodically subjected external vulnerability audits. We are ISO 27001 and ISO 22301 certified in all our major Asia centers to safeguard clients' and Virtusa's own information assets, and believe that we meet all our clients' stringent, security requirements for ongoing business with them.

## **Intellectual property**

We believe that our continued success depends in part on the skills of our team members, the ability of our team members to continue to innovate and our intellectual property rights. We rely on a combination of patent, copyright, trademark and design laws, trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property rights and proprietary methodologies. It is our policy to enter into confidentiality agreements with our team members and consultants that generally provide that any confidential or proprietary information developed by us or on our behalf be kept confidential. We have also designed procedures to generally control access to and distribution of our proprietary information. We pursue the registration of certain of our trademarks and service marks in the United States and other countries. We have registered the mark "Virtusa" in the United States, the European Community, Austria and India and have filed for registration of "Virtusa" in Sri Lanka. We have registered in the United States the service marks "BPM Test Drive" which we use to describe our consulting service offering involving business process management or BPM project implementation and "ACCELERATING BUSINESS OUTCOMES," which we use to describe the benefits of our services. We have no issued patents.

Our business involves the development of IT applications and other technology deliverables for our clients. Our clients usually own the intellectual property in the software applications that we develop for them. We generally implement safeguards designed to protect our clients' intellectual property in accordance with their needs and specifications. Our means of protecting our and our clients' proprietary rights, however, may not be adequate. Despite our efforts, we may be unable to prevent or deter infringement or other unauthorized use of our and our clients' intellectual property. Legal protections afford only limited protection for intellectual property rights and the laws of India and Sri Lanka do not protect intellectual property rights to the same extent as those of the United States and the United Kingdom. Time-consuming and expensive litigation may be necessary in the future to enforce these intellectual property rights.

In addition, we cannot assure you that our intellectual property or the intellectual property that we develop for our clients does not or will not infringe the intellectual property rights of others. Defending against such claims, even if they are not meritorious, could be expensive and divert our attention from operating our company. If we become liable to third parties for infringing upon their intellectual property rights, we could be required to indemnify our client(s), pay substantial damage awards and be forced to develop non-infringing technology, obtain licenses, or cease delivery of the applications that contain the infringing technology.

### **Virtusa Sustainability Program**

The goal of our sustainability program is to help reduce our environmental footprint, with ethical maturity, respect and dignity to all and is an extension of our core corporate values of pursuit of excellence, integrity, respect and leadership (PIRL). We believe in doing more, and better, with less to help reduce the environmental footprint of our operations

Our sustainability program is based on the following core elements.

<b>Area</b>	<b>Framework</b>	<b>Current Status</b>
Health & Safety Environment	OSHAS 18001 ISO 14001 (EMS) ISO 50001 Guidance (Energy) ISO 14064 Guidance (Climate Change) CDP Reporting	All major offices in India and Sri Lanka are certified Encompasses climate change, emissions, energy, water and waste management
Business Continuity Management	ISO 22301	All major offices in India and Sri Lanka are certified
Information Security	ISO27001	All major offices in India and Sri Lanka are certified
Labor Standards	SA 8000 & GS 18	Continuous review of policies to ensure compliance
Anti-Bribery and Corruption	BS 10500	Policies adopted consistent with US Foreign Corrupt Practices Act 1977 and UK Bribery Act 2010
Management Engagement, Social Impact & Diversity	ISO 26000 Guidance	Virtusa creates social impact through the following: <ul style="list-style-type: none"> <li>• Digital reach—creating a digitally inclusive society</li> <li>• Campus reach—supporting the next generation of IT professionals to be workforce ready</li> <li>• Tech reach—using technology for the greater good</li> </ul>

Virtusa's sustainability program is backed by relevant certification, policies and employee training for the core areas. Instilling our business ethics, PIRL, and creating awareness of our sustainability program are a core part of our culture and is an important part of people development. We educate all our employees on the PIRL, our code of ethics and our corporate policies at induction. We also train and test our employees on our corporate policies, including information security, our code of ethics and anti-bribery policies. In addition, we use several communication channels to create awareness on different aspects of sustainability such as health and safety and good environmental practices. These include e-mail campaigns, social media, and special events such as Earth Hour and World Environment Day.

We also believe in applying our sustainability best practices to our supply chain. We follow ethical practices in all our sourcing practices and generally require that our suppliers adhere to accepted standards in labor, human rights and anti-bribery and corruption. We review our suppliers' sustainability practices

using the Virtusa supplier survey. We continuously review and updated our supplier guidelines which set out the standards and practices that we require our suppliers to uphold.

To further our goals of being a responsible corporate citizen in the communities in which we operate, we believe in using our skills and knowledge to create a digitally inclusive society. Our strong culture of volunteerism means that many of our team members offer their time, knowledge and skills to drive our corporate social responsibility projects. For example, Virtusa has embarked on the following corporate social responsibility initiatives which fall under three pillars: Campus Reach, Tech Reach and Digital Reach.

**Campus Reach**—Our Campus Reach initiative is an industry-academia partnership designed to support the next generation of IT professionals to be workforce ready and thereby contribute to the growth of the IT/BPO industry. Through Campus Reach we provide support in curriculum development and knowledge sharing.

**Tech Reach**—Through Tech Reach we use our software development and consulting expertise to contribute to projects of social benefit. Details of current Tech Reach projects are given below:

- **Sahana:** 80+ Virtusa volunteers built the coordination portal for the Government of Sri Lanka (CNO) within two weeks of the 2004 tsunami. “Sahana” has since been donated for public good and has been used around the world, including in the United States, Japan, Pakistan and the Philippines for disaster management.
- **Àkura:** Virtusa developed the “Àkura” open source school management system in order to help schools in Sri Lanka manage their administrative tasks more efficiently.
- **Rehabilitation Management System (RMS):** RMS was first developed as a solution to expedite the re-integration of war rehabilitees in Sri Lanka and manage their vocational training needs. Now that the re-integration process has concluded, we are developing Phase II of RMS so that RMS can be re-purposed for substance abuse rehabilitation. The software was a nominee at Computerworld Honors Program Laureate in 2011 and was selected as a case study by the UN Global Compact for its Responsible Business Advancing Peace program in 2013.
- **Digital Reach**—Through Digital Reach we aim to create a digitally inclusive society by IT-enabling communities. We helped set up a Digital Learning Center (DLC) for war rehabilitants in Sri Lanka, set up over 70 IT labs in rural schools and have partnered with Per Scholas, a non-profit organization, to provide technology education and job placement to underserved communities.

## **Business segments and geographic information**

We view our operations and manage our business as one operating segment. For information regarding net revenue by geographic regions for each of the last three fiscal years, see note 18 to our consolidated financial statements for the fiscal year ended March 31, 2015 contained in this Annual Report.

## **Our corporate and available information**

We were originally incorporated in Massachusetts in November 1996 as Technology Providers, Inc. We reincorporated in Delaware as eRunway, Inc. in May 2000 and subsequently changed our name to Virtusa Corporation in April 2002. Our principal executive offices are located at 2000 West Park Drive, Westborough, Massachusetts 01581, and our telephone number at this location is (508) 389-7300. Our website address is [www.virtusa.com](http://www.virtusa.com). We have included our website address as an inactive textual reference only. The information on, or that can be accessed through, our website is not part of, or incorporated by reference into, this Annual Report. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to

Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through the investor relations page of our internet website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. In addition, we make available our Code of Business Conduct and Ethics free of charge through our website. We intend to disclose any amendments to, or waivers from, our Code of Business Conduct and Ethics that are required to be publicly disclosed pursuant to rules of the SEC and the NASDAQ Stock Market by filing such amendment or waiver with the SEC and posting it on our website.

No information on our Internet website is incorporated by reference into this Annual Report on Form 10-K.

## **Item 1A. Risk Factors.**

*We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. This discussion highlights some of the risks which may affect future operating results. These are the risks and uncertainties we believe are most important for you to consider. Our operating results and financial condition have varied in the past and may vary significantly in the future depending on a number of factors. We cannot be certain that we will successfully address these risks. If we are unable to address these risks, our business may not grow, our stock price may suffer and/or we may be unable to stay in business. Additional risks and uncertainties not presently known to us, which we currently deem immaterial or which are similar to those faced by other companies in our industry or business in general, may also impair our business operations.*

*Except for the historical information in this Annual Report, various matters contained in this Annual Report include forward-looking statements that involve risks and uncertainties. The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Annual Report and presented elsewhere by management from time to time. Such factors, among others, may have a material adverse effect upon our business, results of operations and financial condition. You should consider carefully the following risk factors, together with all of the other information included in this Annual Report. Each of these risk factors could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our common stock.*

### **Risks relating to our business**

***Our revenue is highly dependent on a small number of clients and the loss of, or material reduction in, revenue from any one of our major clients could significantly harm our results of operations and financial condition.***

We have historically earned, and believe that over the next few fiscal years we will continue to earn, a significant portion of our revenue from a limited number of clients. For instance, we generated approximately 32%, 35% and 39% of our revenue in our fiscal years ended March 31, 2015, 2014 and 2013, respectively, from our top three clients during those periods. For the fiscal year ended March 31, 2015, BT, AIG Global Services, Inc. (primarily through its affiliates, Chartis Global Claims Services, Inc. and Chartis Global Services, Inc.) (“AIG”), and JPMC accounted for 12.4%, 10.5% and 9.1% of our total revenue respectively. In addition, during the fiscal years ended March 31, 2015 and 2014, 87%, 89% respectively, of our revenue came from clients to whom we had been providing services for at least one year. The loss of, or material reduction in, revenue from any one of our major clients could materially reduce our total revenue, harm our reputation in the industry and/or reduce our ability to accurately predict our revenue, net income and cash flow. The loss of, or material reduction in revenue from any one of our major clients could also adversely affect our gross profit and utilization as we seek to redeploy resources previously dedicated to that client. Generally, our clients retain us on a non-exclusive, engagement-by-engagement basis, rather than under exclusive long-term contracts and may typically terminate or reduce our engagements without termination related penalties. Accordingly, we cannot assure you that revenue from our major clients will not be significantly reduced in the future, including from factors unrelated to our performance or work product such as consolidation by or among our clients or the acquisition of a client. Further, the loss of, or material reduction in revenue from any one of our major clients has required, and could in the future require, us to increase involuntary attrition. This could have a material adverse effect on our attrition rate and make it more difficult for us to attract and retain IT professionals in the future.

We may not be able to maintain our client relationships with our major clients on existing or on continued favorable terms and our clients may not renew their agreements with us, in which case, our business, financial condition and results of operations would be adversely affected. For instance, in April 2015, we extended our master services agreement with BT until September 30, 2015 and on May 15, 2015, we negotiated and entered into the MPSA with AIG, which replaced our 2008 MSA and reflected negotiated commercial terms. In addition, on January 5, 2015, we amended our master services agreement with JPMC to reflect updated negotiated, commercial terms. Our client concentration may also subject us

to perceived or actual leverage that our clients may have, given their relative size and importance to us. If our clients seek to negotiate their agreements on terms less favorable to us and we accept such unfavorable terms, such unfavorable terms may have a material adverse effect on our business, financial condition and results of operations. Accordingly, unless and until we diversify and expand our client base, our future success will significantly depend upon the timing and volume of business from our largest clients and the financial and operational success of these clients. If we were to lose one of our major clients or have a major client cancel substantial projects or otherwise significantly reduce its volume of business with us, our revenue and profitability would be materially reduced and our business and operating results would be seriously harmed.

***Currency exchange rate fluctuations may materially and negatively affect our revenue, gross margin, operating margin, net income and cash flows.***

The exchange rates among the Indian and Sri Lankan rupees and the U.S. dollar and the U.K. pound sterling, as well as the exchange rates between the U.S. dollar and the U.K. pound sterling, have changed substantially in prior periods and may continue to fluctuate substantially in the future. We expect that a majority of our revenue will continue to be generated in the U.S. dollar and U.K. pound sterling for the foreseeable future. Recently, the US dollar has materially appreciated against global currencies, especially the UK pound sterling, euro and Swedish krona (“SEK”), which have had, and could continue to have, a materially negative impact on our revenue generated in the U.K. pound sterling, euro and SEK, as well as on our operating income and net income. Any continued appreciation of the U.S. dollar against the U.K. pound sterling, the euro and/or SEK will likely have a negative impact on our revenue, operating income and net income. For the foreseeable future, we also expect that a significant portion of our expenses, including personnel costs and operating expenditures, will continue to be denominated in Indian and Sri Lankan rupees. Accordingly, any material appreciation of the Indian rupee or the Sri Lankan rupee against the U.S. dollar or U.K. pound sterling could have a material adverse effect on our cost of revenue, gross margins and net income, which may in turn have a negative impact on our business, operating results, financial condition and results of operations. Although we have entered into, and may continue to enter into, derivative contracts to mitigate the impact of the fluctuation in the U.K. pound sterling and the Indian rupee, we cannot assure you that these hedges will be effective. These hedges may also cause us to forego certain benefits including benefits caused by depreciation of the Indian rupee with respect to our expenses or by a depreciation of the U.K. pound sterling with respect to our revenue. In addition, use of derivatives includes the risk of non-performance of the counterparty. We have also initiated an investment program (short to medium term currency deposits) in Asia where we hold investments in local currency. Accordingly, any material depreciation of the UK pound sterling, the Indian rupee or the Sri Lankan rupee against the U.S. dollar could have a material adverse impact on our cash balances when consolidated and translated into U.S. dollars.

Our revenues and cost of revenue in Sweden are subject to fluctuations based on the current exchange rates between the SEK, the U.S. dollar and the euro. Although we have commenced purchasing multiple foreign currency forward contracts designed to hedge fluctuation of the SEK against the U.S. dollar, we can make no assurance that these hedges will be effective or that we will not forego certain benefits if the SEK appreciates in value.

***Our operating results may be adversely affected by our use of derivative financial instruments.***

There is no guarantee that our financial results will not be adversely affected by currency exchange rate fluctuations or that any efforts by us to engage in currency hedging activities will be effective. In addition, in some countries we could be subject to strict restrictions on the movement of cash and the exchange of foreign currencies, which could limit our ability to use this cash across our global operations.

Although we have adopted a twelve quarter cash flow hedging program to minimize the effect of any Indian rupee fluctuation on our financial condition, these hedges may not be effective or may cause us to

forego benefits, especially given the volatility of the currency. In addition, to the extent that these hedges cease to qualify for hedge accounting, we may have to recognize the derivative instruments' unrealized gains or losses in earnings prior to maturity. If we are unable to accurately forecast our Indian-rupee denominated costs, we may lose our ability to qualify for hedge accounting. We cannot guarantee our ability to accurately forecast such expenses. Furthermore, we are exposed to foreign currency volatility related to other currencies including, the Swedish Krona, the Canadian dollar, the euro, the Singapore dollar and the Sri Lankan rupee, which are either not hedged or not hedged in full. Any significant change as compared to the U.S. dollar could have a negative impact on our revenue, operating profit, and net income. Finally, as we continue to leverage our global delivery model, more of our expenses will be incurred in currencies other than those in which we bill for the related services. An increase in the value of these currencies, such as the Indian rupee or Sri Lankan rupee, against the U.S. dollar or U.K. pound sterling could increase costs for delivery of services at off-shore sites by increasing labor and other costs that are denominated in the respective local currency.

***The international nature of our business exposes us to many complex risks, which may be beyond our control.***

We have operations in the United States, the United Kingdom, the Netherlands, India, Sri Lanka, Germany, Singapore, Austria, Hungary, Malaysia and Sweden and we serve clients across North America, Europe and Asia. For the fiscal years ended March 31, 2015, 2014 and 2013, revenue generated outside of the United States accounted for 33%, 30% and 25% of total revenue, respectively. Our corporate structure also spans multiple jurisdictions, with Virtusa Corporation incorporated in Delaware and its operating subsidiaries organized in India, Sri Lanka, the United Kingdom, Hungary, Germany, Singapore, Austria, Malaysia, Sweden, Switzerland and the Netherlands. As a result, our international revenue and operations are exposed to risks typically associated with conducting business internationally, many of which are beyond our control. These risks include:

- negative currency fluctuations between the U.S. dollar and the currencies in which we conduct transactions, including most significantly, the U.K. pound sterling, the euro and SEK (in which our foreign revenue is principally denominated) and the Indian and Sri Lankan rupees (in which our foreign costs are primarily denominated)
- adverse income tax consequences resulting from foreign income tax examination, such as challenges to our transfer pricing arrangements and challenges to our ability to claim tax holiday benefits in the countries in which we operate
- difficulties in staffing, managing and supporting operations in multiple countries
- potential fluctuation or decline in foreign economies
- unexpected changes in regulatory requirements, including immigration restrictions, potential tariffs and other trade barriers
- legal uncertainty owing to the overlap of different legal regimes and problems in asserting contractual or other rights across international borders, including compliance with local laws of which we may be unaware
- government currency control and restrictions on repatriation of earnings
- the burden and expense of complying with the laws and regulations of various jurisdictions
- domestic and international economic or political changes, hostilities, terrorist attacks and other acts of violence or war

Negative developments in any of these areas in one or more countries could result in a reduction in revenue or demand for our services, the cancellation or delay of client contracts, business interruption, threats to our intellectual property, difficulty in collecting receivables and a higher cost of doing business,

including higher taxes, any of which could negatively affect our business, financial condition or results of operations.

***Restrictions on immigration may affect our ability to compete for and provide services to clients in the United States, Europe (particularly, the United Kingdom), or other countries, which could result in lost revenue, lower gross margins, delays in or losses of client engagements and otherwise adversely affect our ability to meet our growth, revenue and profit projections.***

The vast majority of our team members are Indian and Sri Lankan nationals. The ability of our IT professionals to work in the United States, the United Kingdom and other countries depends on our ability to obtain the necessary visas and entry permits. In recent years, the United States has increased the level of scrutiny in granting H-1(B), L-1 and other business visas. The H-1(B) visa classification enables U.S. employers to hire qualified foreign workers in positions that require an education at least equal to a four-year bachelor degree in the United States in specialty occupations such as IT systems engineering and systems analysis. The H-1(B) visa usually permits an individual to work and live in the United States for a period of up to six years. Under certain circumstances, H-1(B) visa extensions after the six-year period may be available. H-1(B) visa holders are required to be paid the higher of the actual wage, or the prevailing wage for their position at the site of their employment. In addition, there are strict labor regulations associated with the H-1(B) visa classification, including disclosure, attestations and document retention. Employers who are H-1B dependent (i.e. those with fifteen percent (15%) or more of their workforce on H-1B visas) are potentially subject to additional disclosures, attestations and subject to specific affirmative recruitment requirements if the employees they sponsor for H-1B visa do not qualify as “exempt” employees. An exempt employee is one who is either (a) paid an annual salary of at least \$60,000 or b) one who holds a masters or higher degree in a specialty occupation related to their employment. In September 2014, we became an “H-1B Dependent Employer.” To avoid being subject to additional attestations, disclosures, and affirmative recruitment requirements, we do not sponsor employees for H-1B visas who make less than \$60,000 per year. As a result of our being an “H-1B Dependent Employer” it is likely that our petitions are subject to greater scrutiny at the time of adjudication. All users of the H-1(B) program are subject to periodic site visits from the United States Citizenship and Immigration Services, or USCIS, to verify their compliance with immigration and Labor Regulations. In addition, the Wage and Hour Division of the United States Department of Labor may also conduct H-1(B) audits to verify compliance with labor regulations. A finding by the United States Department of Labor of willful or substantial failure by us to comply with existing regulations on the H-1(B) classification may result in back-pay liability, substantial fines, and/or a ban on future use of the H-1(B) program and other immigration benefits. We are users of the H-1(B) visa classification with respect to some of our key offshore workers who have relocated onsite to perform services for our clients. As a result of our H-1B Dependent Employer status, we are likely subjected to more site visits and a higher level of scrutiny by USCIS and the US Department of Labor than Non Dependent Employers.

We also regularly transfer employees from our global subsidiaries, primarily those from India and Sri Lanka to the United States to work on projects and at client sites using the L-1 visa classification. The L-1 visa allows companies abroad to transfer certain managers, executives and employees with specialized company knowledge to related United States companies such as a parent, subsidiary, affiliate, joint venture, or branch office. We have an approved “Blanket L Program,” under which the corporate relationships of our transferring and receiving entities have been pre-approved by the USCIS, thus enabling individual L-1 visa applications to be presented directly to a visa-issuing United States consular post abroad rather than undergoing the individual petition pre-approval process through USCIS in the United States. In recent years, both the United States consular posts that review initial L-1 applications and USCIS, which adjudicates individual petitions for initial grants and extensions of L-1 status, have become increasingly restrictive with respect to their interpretation of the regulations governing this category and all applications are subject to increased scrutiny. For example, all L-1 applicants, including those brought to the United States under a Blanket L Program, must have worked abroad with the related

company for one full year in the prior three years. In addition, L-1B “specialized knowledge” visa holders may not be primarily stationed at the work site of another employer if the L-1B visa holder will be principally controlled and supervised by an employer other than the petitioning employer. Finally, L-1B status may not be granted where placement of the L-1B visa holder at a third party site is part of an arrangement to provide labor for hire to the third party, rather than placement at the site in connection with the provision of a product or service involving specialized knowledge specific to the petitioning employer. As a result, the rate of refusals of both individual and blanket L-1 petitions and of extensions has materially increased. In addition, even where L-1 visas are ultimately granted and issued, security measures undertaken by United States consular posts around the world have substantially delayed visa issuances as they are allowed the right to further scrutinize the visa and request for additional supporting documentation. Any inability to bring, or delays in bringing, qualified technical personnel into the United States to staff on-site customer locations would have a material adverse effect on our client engagements, our business, results of operations and financial condition. Due to these immigration delays, we may also be required to hire or subcontract resources locally or perform more work onsite, thus negatively impacting our gross margins and overall profitability.

We also process immigrant visas for lawful permanent residence (green cards) in the United States for employees to fill positions for which there are an insufficient number of able, willing, and qualified United States workers available to fill the positions. Compliance with existing United States immigration and labor laws, or changes in those laws making it more difficult to hire foreign nationals or limiting our ability to successfully obtain permanent residence for our foreign employees in the United States, could require us to incur additional unexpected labor costs and expenses or could restrain our ability to retain the skilled professionals we need for our operations in the United States. Any of these restrictions or limitations on our hiring practices could have a material adverse effect on our business, results of operations and financial condition.

In response to terrorist attacks and global unrest, U.S. and U.K. immigration authorities, as well as other countries, have not only increased the level of scrutiny and conditions to granting visas, but have also introduced new security procedures, which include extensive background checks, personal interviews and the use of biometrics, as conditions to granting visas and work permits. A number of European countries are considering changes in immigration policies as well. The inability of key project personnel to obtain necessary visas or work permits could delay or prevent our fulfillment of client projects, which could hamper our growth and cause our revenue to decline. These restrictions and additional procedures may delay, or even prevent the issuance of a visa or work permit to our IT professionals and affect our ability to staff projects in a timely manner. Any delays in staffing a project can result in project postponement, delays or cancellation, which could result in lost revenue and decreased profitability and have a material adverse effect on our business, revenue, profitability and utilization rates.

Immigration laws in countries in which we seek to obtain visas or work permits may require us to meet certain other legal requirements as conditions to obtaining or maintaining entry visas. These immigration laws are subject to legislative change and varying standards of application and enforcement due to political forces, economic conditions or other events, including terrorist attacks. For instance, there are certain restrictions on transferring employees to work in the United Kingdom, where we have experienced growth. The United Kingdom requires that all employees who are not nationals of European Union countries (plus Bulgaria and Romania) obtain work permission before obtaining a visa/entry clearance to travel to the United Kingdom. New European nationals from countries such as Hungary, Poland, Lithuania, Slovakia, and the Czech Republic do not have a work permit requirement but do need to obtain a worker registration within 30 days of arrival. The United Kingdom has introduced a points-based system under which certain certificates of sponsorship are issued by licensed employer sponsors, provided the employees they seek to employ in the United Kingdom can demonstrate that the employee can accumulate 50 points based on certain attributes, which include academic qualifications, intended salary and other factors plus 10 points for English language (not necessary where the employee is an intra-company transferee) and

10 points for maintenance. Where the employee has not worked for a Virtusa group company outside the United Kingdom for at least 12 months, we will need to carry out a resident labor market test to confirm that the intended role cannot be filled by a European Economic Area national. While we are an A-rated sponsor and have been able to obtain certificates of sponsorship to satisfy our demand for transfers to the United Kingdom, we can make no assurance that we can continue to do so.

To the extent we experience delays due to immigration restrictions, we may encounter client dissatisfaction, project and staffing delays in new and existing engagements, project cancellations, project losses, higher project costs and loss of revenue, resulting in decreases in profits and a material adverse effect on our business, results of operations, financial condition and cash flows. Due to these immigration delays, we may also need to perform more work onsite, or hire more resources locally, thus reducing our gross margins and overall profitability.

***Changes in U.S. immigration law, if approved into law, may increase our cost of revenue and may substantially restrict or eliminate our ability to obtain visas to use offshore resources onsite, which could have a material adverse impact on our business, revenue, profitability and utilization rates.***

The issue of companies outsourcing services to organizations operating in other countries is a topic of political discussion in many countries, including the United States, which is our largest market. For example, measures aimed at limiting or restricting outsourcing by United States companies are periodically considered in the U.S. Congress and in numerous state legislatures to address concerns over the perceived association between offshore outsourcing and the loss of jobs domestically. On August 13, 2010, President Barack Obama signed legislation which contained provisions to impose additional fees of \$2,000 for certain H-1(B) petitions and \$2,250 for certain L-1A and L-1B petitions beginning in August 2010 through September 20, 2014. These fees were extended through September 20, 2015 and already have had a negative impact on our gross profits and overall cost of operations, given the very competitive environment in which we operate, and despite our efforts to recoup these costs either directly from our clients or indirectly through our billing rates.

The potential risks and impact to our business if changes are made to immigration laws relating to use of H-1(B) and L-1 visas are approved could include:

- Reduced ability to bring in foreign workers on an L-1 or H-1(B) visa
- Increased scrutiny and requests for proof of eligibility on the use of L-1 and H-1(B) visas
- Higher costs, including wages and benefits, for H-1(B) and L-1 visa holders
- Elimination of a company's ability to pay the living expenses of an L-1 visa holder on a tax free basis
- Increased oversight by the Department of Labor ("DOL") over issuance, use and administration of L-1 visas, just as the DOL currently oversees H-1(B) visas

Even if we are able to apply for, or obtain, such visas, we could incur substantial delays and costs in processing any such requests and our costs of operations could materially rise, thus materially and negatively impacting our gross margins and our statement of income. Any inability to obtain, or extended delays in obtaining, these visas, or any delays or inability to hire resources for existing or future client projects could materially delay or prevent our commencement or fulfillment of client projects, which could hamper our growth and cause our revenue to decline. In addition, we may have to hire or use local onsite resources at substantially higher wage levels, rather than using existing offshore resources to staff onsite engagements which would materially reduce our gross margins. Even if we use our offshore resources, we may have to put offshore resources on U.S. payroll at U.S. prevailing wage levels and full benefits, rather than the existing practice of being able to provide a per diem reimbursement to the offshore resource on a tax free basis to cover living expenses while onsite. Our costs of revenue could then substantially increase and our gross profit and our gross margins could then be materially and adversely affected. Any such

delays or inability to staff needed resources on client engagements may cause client dissatisfaction, project and staffing delays in new and existing engagements, project cancellations, higher project costs and loss of revenue, resulting in decreases in profits and a material adverse effect on our business, results of operations, financial condition and cash flows.

*Acquisitions that we have completed and any future acquisitions, strategic investments, partnerships or alliances could be difficult to integrate and/or identify, divert the attention of key management personnel, disrupt our business, dilute stockholder value and adversely affect our financial results, including impairment of goodwill and other intangible assets.*

If we do identify suitable acquisition, strategic investment or partnership or alliance candidates, we may not be able to complete transactions on terms commercially acceptable to us, if at all. These types of transactions involve numerous risks, including:

- inability to generate sufficient revenue to offset transaction costs or to maintain previous forecasts regarding profit margins and earnings per share forecasts
- underperformance of the acquired company as compared to our forecasts, resulting in lower utilization, lower gross margins and operating margins, higher operating costs and lower profits from our previous forecasts
- difficulties in integrating operations, technologies, accounting and personnel
- difficulties in supporting and transitioning clients of our acquired companies or strategic partners
- diversion of financial and management resources from existing operations
- risks of entering new markets
- potential loss of key team members
- unknown liabilities

Our organizational structure could make it difficult for us to efficiently integrate acquired businesses or technologies into our ongoing operations and assimilate employees of those businesses into our culture and operations. Accordingly, we might fail to realize the expected benefits or strategic objectives of any acquisition we undertake. Acquisitions also frequently result in the recording of goodwill and other intangible assets that are subject to potential impairments in the future that could harm our financial results. We have completed five acquisitions from November 2009 to March 31, 2015. In connection with these acquisitions, we are carrying \$50.4 million in goodwill on our consolidated balance sheets at March 31, 2015. On April 1, 2015, we also acquired all of the issued and outstanding stock of Apparatus, Inc. for approximately \$34.2 million in cash, subject to post-closing working capital adjustments, which acquisition will increase the amount of goodwill we are carrying for periods after April 1, 2015. If we fail to successfully integrate these acquired companies or any company that we may acquire in the future and maintain their value, or if any existing or future acquired companies materially fail to perform in a manner consistent with our valuations or forecasts, we may suffer an impairment of our assets, resulting in an immediate charge to our consolidated statement of income. Any such failure to integrate an acquired company, or any impairment of intangible assets or goodwill of any such acquired company could have a material adverse impact on our consolidated balance sheet and consolidated statements of income.

***As a global company, we may not have ready access to cash in geographies where we need it, and as such, we may need to raise capital in the future, although our ability to raise capital may be limited.***

We anticipate that our current cash and cash equivalents and short-term investments, together with cash generated from operations, will be sufficient to meet our current needs for general corporate purposes for the foreseeable future. However, as a global company, we also may not have ready access to cash in geographies where we seek to make investments, including for the following purposes:

- acquiring businesses or technologies or making strategic investments
- adding additional global delivery centers
- procuring additional capacity and facilities
- hiring additional personnel
- enhancing our operating infrastructure

If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be significantly diluted and these newly issued securities may have rights, preferences or privileges senior to those of existing stockholders. If we obtain additional debt financing, a substantial portion of our operating cash flow may be dedicated to the payment of principal and interest on such indebtedness, thus limiting funds available for our business activities and increasing our costs of operations, which could have a material adverse impact on our operating margins. Any such debt financing could require us to comply with restrictive financial and operating covenants, which could have a material adverse impact on our business, results of operations or financial condition.

We cannot assure you that additional financing will be available on terms favorable to us, or at all or in the locations where we need the additional capital. If adequate funds are not available or are not available on acceptable terms, when we desire them, our ability to fund our operations and growth, take advantage of unanticipated opportunities or otherwise respond to competitive pressures may be significantly limited.

***We may be subject to certain liabilities assumed in connection with our acquisitions that could harm our operating results.***

Although we conduct due diligence in connection with each of our acquisitions, there may be liabilities that we fail to discover or that we inadequately assess in our due diligence efforts. In particular, to the extent that any acquired businesses or properties failed to comply with or otherwise violated applicable laws or regulations, or failed to fulfill their contractual obligations to clients, we, as the successor owner, may be financially responsible for these violations and failures and may suffer reputational harm or otherwise be adversely affected. While we generally require the selling party to indemnify us for any and all liabilities associated with such liabilities, if for any reason the seller does not perform their indemnification obligation, we may be held responsible for such liabilities. In addition, as part of an acquisition, we may assume responsibilities and obligations of the acquired business pursuant to the terms and conditions of services agreements entered into by the acquired entity that are not consistent with the terms and conditions that we typically accept and require. Although we attempt to structure acquisitions in such a manner as to minimize the liability that could arise from such contractual commitments, we cannot assure you that any of our efforts to minimize the liability will be effective in all instances or will otherwise protect us from liability for damages under such agreements. The discovery of any material liabilities associated with our acquisitions for which we are unable to receive indemnification could harm our operating results.

***We could be subject to strict restrictions on the movement of cash and the exchange of foreign currencies which could limit our access to cash in non-U.S. locations to fund our U.S. operations or otherwise make investments where needed.***

In some countries, we could be subject to strict restrictions on the movement of cash and the exchange of foreign currencies, which would limit our ability to use this cash across our global operations. This risk could increase as we continue our geographic expansion in emerging markets, which are more likely to impose these restrictions than more established markets. We therefore may not have ready access to cash in geographies where we need to make investments. For instance, at March 31, 2015, we had approximately \$236 million of cash, cash equivalents, short term investments and long term investments of which we hold approximately \$99 million of cash, cash equivalents and short term investments in non-U.S. locations, particularly in India, Sri Lanka and the United Kingdom. Cash in these non-U.S. locations may not otherwise be available for potential investment or use for operations in the United States or other geographies where needed, as we have stated that this cash is indefinitely reinvested in these non-U.S. locations. Moreover, even if we were to repatriate this cash back to the United States for use in U.S. investments, this cash would be subject to substantial taxes. Due to various methods by which cash could be repatriated to the United States in the future, the amount of taxes attributable to the cash is dependent on circumstances existing if and when remittance occurs. We estimate that it could cost us as much as \$31.3 million to repatriate cash back to the United States. In addition, some countries could have tight restrictions on the movement and exchange of foreign currencies which could further limit our ability to use such funds for global operations or capital or other strategic investments. Our inability to access our cash where and when needed could impede our ability to make investments and support our operations.

***If we cannot attract and retain highly-skilled IT professionals, our ability to obtain, manage and staff new projects and expand existing projects may result in loss of revenue and an inability to expand our business.***

Our business is labor intensive and our ability to execute and expand existing projects and obtain new clients depends largely on our ability to hire, train and retain highly-skilled IT professionals, particularly project managers, IT engineers and other senior technical personnel. The improvement in demand for global IT services has further increased the need for employees with specialized skills or significant experience in IT services, particularly at senior levels and those with special skills. Further, there is intense worldwide competition for IT professionals with the skills necessary to perform the services we offer. If we cannot hire and retain such additional qualified personnel, our ability to acquire, manage and staff new projects and to expand, manage and staff existing projects, may be materially impaired. We may then lose revenue and our ability to expand our business may be harmed. For example, in our fiscal year ended March 31, 2015, our voluntary attrition rate was 14.7%. We, and the industry in which we operate, generally experience high employee attrition and we cannot assure you that we will be able to hire or retain the number and quality of technical personnel necessary to satisfy our current and future client needs. We also may not be able to hire and retain enough skilled and experienced IT professionals to replace those who leave. Additionally, if we have to replace personnel who have left our company, we will incur increased costs not only in hiring replacements but also in training such replacements until they can become productive and billable to our clients. In addition, we may not be able to redeploy and retrain our IT professionals in anticipation of continuing changes in technology, evolving standards and changing client preferences. Our inability to attract and retain IT professionals, or delays or inability to staff needed resources on client engagements may cause client dissatisfaction, project and staffing delays in new and existing engagements, project cancellations, project losses, higher project costs and loss of revenue, resulting in decreases in profits and a material adverse effect on our business, results of operations, financial condition and cash flows.

***The IT services market is highly competitive and our competitors may have advantages that may allow them to compete more effectively than we do to secure client contracts and attract skilled IT professionals.***

The IT services market in which we operate includes a large number of participants and is highly competitive. Our primary competitors include offshore IT outsourcing firms and consulting and systems integration firms. We also occasionally compete with in-house IT departments, smaller vertically-focused IT service providers and local IT service providers based in the geographic areas where we compete. We expect additional competition from offshore IT outsourcing firms in emerging locations such as Eastern Europe, Latin America and China, as well as offshore IT service providers with facilities in less expensive geographies within India.

The IT services industry in which we compete is experiencing rapid changes in its competitive landscape. Some of the large consulting firms and offshore IT service providers with which we compete have significant resources and financial capabilities combined with a greater number of IT professionals. Many of our competitors are significantly larger and some have gained access to public and private capital or have merged or consolidated with better capitalized partners, which events have created and may in the future create, larger and better capitalized competitors. Our competitors may have superior abilities to compete for market share, and compete against us for our existing and prospective clients. Our competitors may also have larger engagements with our existing or prospective clients which, due to our size and scale, may provide our competitors with significant advantages in any competitive bidding process. Our competitors may also be better able to use significant economic incentives, such as lower billing rates or non-billable resources, to secure contracts with our existing and prospective clients or gain a competitive advantage by being able to staff engagements that we are unable to staff, due to our shortage of resources, our lack of special skill sets or immigration delays. Our competitors may also be better able to compete for and retain skilled professionals by offering them more attractive compensation or other incentives. These factors may allow our competitors to have advantages over us to meet client demands in an engagement requiring large numbers and varied types of resources with specific experience or skill-sets that we may not have readily available in the short-term or the long-term. We cannot assure you that we can maintain or enhance our competitive position against current and future competitors. Our failure to compete effectively could have a material adverse effect on our business, financial condition or results of operations.

***We may face damage to our professional reputation if our services do not meet our clients' expectations.***

Many of our projects involve technology applications or systems that are critical to the operations of our clients' businesses and handle very large volumes of transactions. If we fail to perform our services correctly, we may be unable to deliver applications or systems to our clients with the promised functionality or within the promised time frame, or to satisfy the required service levels for support and maintenance. If a client is not satisfied with our services or products, including those of subcontractors we employ, we may not be able to invoice for our services, or if we do invoice, we may not be able to collect the fees due on such engagements, and our business may suffer. Moreover, if we fail to meet our contractual obligations, our clients may terminate their contracts and we could face legal liabilities and increased costs, including warranty or breach of contract claims against us. Any failure in a client's project could result in a claim for substantial damages, our inability to recognize all or some of the revenue for the client project, potential reversals of revenue previously recognized, non-payment of outstanding invoices, increased expenses due to increase in reserves for doubtful accounts, loss of future business with such client and increased costs due to non-billable time of our resources dedicated to address any performance or client satisfaction issues, regardless of our responsibility for such failure.

***If we are unable to collect our receivables from, or bill our unbilled services to, our clients, our results of operations and cash flows could be adversely affected.***

Our business depends on our ability to successfully obtain payment from our clients of the amounts they owe us for work performed. We evaluate the financial condition of our clients and usually bill and

collect on relatively short cycles. We maintain allowances against receivables and unbilled services. Actual losses on client balances could differ from those that we currently anticipate and, as a result, we might need to adjust our allowances. There is no guarantee that we will accurately assess the creditworthiness of our clients. Macroeconomic conditions could also result in financial difficulties, including insolvency or bankruptcy, for our clients, and, as a result, could cause clients to delay payments to us, request modifications to their payment arrangements that could increase our receivables balance, or default on their payment obligations to us. Timely collection of client balances also depends on our ability to complete our contractual commitments and bill and collect our contracted revenues. If we are unable to meet our contractual requirements, we might experience delays in collection of and/or be unable to collect our client balances, and if this occurs, our results of operations and cash flows could be adversely affected. In addition, if we experience an increase in the time to bill and collect for our services, our cash flows could be adversely affected.

***We depend on clients primarily located in the United States and Europe (primarily, the United Kingdom), and are therefore subject to the risks and events affecting these geographies and economies that may cause our clients to reduce or postpone their IT spending.***

For our fiscal year ended March 31, 2015, we derived substantially all of our revenue from clients located in the United States and Europe (primarily, the United Kingdom). During the fiscal year ended March 31, 2015, we generated 67% of our revenue from clients in the United States, 27% of our revenue from clients in the Europe (primarily, the United Kingdom) and 6% from clients in the rest of the world. While the United States economy has marginally improved recently, the European economy remains weakened. If a weakening or slowing of these economies continues or accelerates, or deterioration in these financial markets occurs, pricing for our services may be depressed and our clients may reduce or postpone their technology spending significantly, which may in turn lower the demand for our services and negatively affect our revenue and profitability. Additionally, any prolonged recession or weakening of the growth rates and economies in the United States and/or Europe could have a material adverse impact on IT budgets, erode our client base and our target markets and have a material adverse impact on our revenue.

***We depend on clients concentrated in specific industries, such as BFSI, and are therefore subject to risks relating to developments affecting these clients and industries that may cause them to reduce or postpone their IT spending.***

In our fiscal year ended March 31, 2015, we derived substantially all of our revenue from clients in three industries: BFSI, C&T, and M&I. During our fiscal year ended March 31, 2015, we earned approximately 58% of our revenue from clients in the BFSI industries and our revenue from this industry vertical grew by approximately 19% from the prior fiscal year. If any decline in the growth of the BFSI industries, particularly the financial services industry, occurs, or if there is a significant consolidation in these industries or a decrease in growth or consolidation in other industry verticals on which we focus, such events could materially reduce the demand for our services and negatively affect our revenue and profitability. If economic conditions weaken or slow particularly in the industries in which we focus, our clients may significantly reduce or postpone their IT spending. Reductions in IT budgets, increased consolidation or increased competition in these industries could result in an erosion of our client base and a reduction in our target market. Any reductions in the IT spending of companies in any one of these industries may reduce the demand for our services and negatively affect our revenue and profitability.

***Our inability to manage to a desired onsite-to-offshore service delivery mix may negatively affect our gross margins and costs and our ability to offer competitive pricing.***

We may not succeed in maintaining or increasing our profitability and could incur losses in future periods if we are not able to manage to a desired onsite-to-offshore service delivery mix. To the extent that our services engagements involve an increasing number of consulting, production support, software package implementation or other services typically requiring a higher percentage of onsite resources, we

may not be able to manage to our desired service delivery mix. Additionally, other factors like client constraint or preferences or our inability to manage engagements effectively with limited resources onsite, or difficulty in staffing onsite projects due to immigration issues, resource constraints, new and complex client engagements or other related factors, may result in a higher percentage of onsite resources than our desired service delivery mix. Accordingly, we cannot assure you that we will be able to manage to our desired onsite-to-offshore service delivery mix. If we are unable to manage to our targeted service delivery mix, our gross margins may decline and our profitability may be reduced. Additionally, our costs will increase and we may not be able to offer competitive pricing to our clients which could result in lost opportunities or lost business.

***If we do not continue to maintain or improve our operational, financial and other internal controls and systems to manage our growth and size or if we are unable to enter, operate and compete effectively in new geographic markets, our business may suffer and the value of our stockholders' investment in our Company may be harmed.***

Our growth will continue to place significant demands on our management and other resources and will require us to continue to develop and improve our operational, financial and other internal controls in the United States, Europe, India, Sri Lanka and elsewhere. In particular, our continued growth will increase the challenges involved in:

- recruiting, training and retaining technical, finance, marketing and management personnel with the knowledge, skills and experience that our business model requires
- maintaining high levels of client satisfaction
- developing and improving our internal administrative infrastructure and controls, particularly our financial, operational, communications and other internal systems and controls
- preserving our culture, values and entrepreneurial environment
- effectively managing our personnel and operations and effectively communicating to our personnel worldwide our core values, strategies and goals

In addition, the increasing size and scope of our operations increase the possibility that a member of our personnel will engage in unlawful or fraudulent activity, breach our contractual obligations, or otherwise expose us to unacceptable business risks, despite our efforts to train our people and maintain internal controls to prevent such instances. If we do not continue to maintain and/or develop and implement the right processes and tools to manage our enterprise, our ability to compete successfully and achieve our business objectives could be impaired.

***We are investing substantial cash in new facilities and our profitability could be reduced if our business does not grow proportionately.***

We intend to make increased investments in our existing global delivery centers in Asia, particularly our largest centers in India and Sri Lanka, as well as in our near shore center in the United States. We may face cost overruns and project delays in connection with these facilities or other facilities we may construct or seek to lease in the future. Such delays may also cause us to incur additional leasing costs to extend the terms of existing facility leases or to enter into new short-term leases if we cannot move into the new facilities in a timely manner. Such investment may also significantly increase our fixed costs, including an increase in depreciation expense. If we are unable to expand our business and revenue proportionately, our profitability would be reduced.

***We may lose revenue if our clients terminate, reduce, or delay their contracts with us.***

Our clients typically retain us on a non-exclusive, engagement-by-engagement basis, rather than under exclusive long-term contracts. Many of our contracts for services have terms of less than 12 months and

permit our clients to terminate or reduce our engagements on prior written notice of 90 days or less for convenience, and without termination-related penalties. Further, many large client projects typically involve multiple independently defined stages, and clients may choose not to retain us for additional stages of a project or cancel or delay their start dates. These terminations, reductions, cancellations or delays could result from factors unrelated to our work product or the progress of the project, including:

- client financial difficulties or general or industry specific economic downturns
- a change in a client's strategic priorities, resulting in a reduced level of IT spending
- a client's demand for price reductions
- a change in a client's outsourcing strategy that shifts work to in-house IT departments or to our competitors
- consolidation by or among clients or an acquisition of a client
- replacement by our client of existing software to packaged software supported by licensors

If our contracts were terminated early, materially delayed or reduced in size or scope, our business and operating results could be materially harmed and the value of our common stock could be impaired. Unexpected terminations, reductions, cancellation or delays in our client engagements could also result in increased operating expenses as we transition our team members to other engagements.

***We may not be able to continue to maintain or increase the profitability, and growth rates of previous fiscal years.***

We may not succeed in maintaining our profitability and could incur losses in future periods. If we experience declines in demand, declines in, or inability to raise, pricing for our services, cost increases for US based resources, or if wages in India or Sri Lanka continue to increase at a faster rate than in the United States and the United Kingdom, we will be faced with continued growing costs for our IT professionals, including wage increases. We also expect to continue to make investments in infrastructure, facilities, sales and marketing and other resources as we expand, thus incurring additional costs and potentially reducing our operating margins. If our revenue does not increase to offset these increases in costs or operating expenses, our operating results would be negatively affected. In fact, in future quarters we may not have any revenue growth and our revenue and net income could decline. You should not consider our historic revenue and net income growth rates as indicative of future growth rates. Accordingly, we cannot assure you that we will be able to maintain or increase our profitability in the future.

***Our profitability is dependent on our billing and utilization rates, which may be negatively affected by various factors.***

Our profit margin is largely a function of the rates we are able to charge for our services and the utilization rate of our IT professionals. The rates we are able to charge for our services are affected by a number of factors, including:

- our clients' perception of our ability to add value through our services
- the introduction of new services or products by us or our competitors
- the size and/or duration of the engagement
- the pricing policies of our competitors
- our ability to charge premium prices when justified by market demand or type of skill set or service
- general economic conditions

In addition, the factors impacting our utilization rate, include:

- our ability to transition team members quickly from completed or terminated projects to new engagements
- our ability to maintain continuity of existing resources on existing projects
- our ability to obtain visas or applicable work permits for offshore personnel to commence projects at a client site for new or existing engagements
- the amount of time spent by our team members on non-billable training activities
- our ability to maintain resources who are appropriately skilled for specific projects
- our ability to forecast demand for our services and thereby maintain an appropriate number of team members
- our ability to manage team member attrition seasonal trends, primarily our hiring cycle, holidays and vacations
- the number of campus hires

If we are not able to maintain the rates we charge for our services or maintain an appropriate utilization rate for our IT professionals, our revenue will decline, our costs will increase and we will not be able to sustain or increase our gross or operating profit margins, any of which could have a material adverse effect on our profitability.

***We may be required to spend substantial time and expense in a fiscal period before we can recognize revenue in such fiscal period, if any, from a client contract.***

The period between our initial contact with a potential client and the execution of a client contract for our services is lengthy, and can extend over one or more fiscal quarters. To sell our services successfully and obtain an executed client contract, we generally have to educate our potential clients about the use and benefits of our services, which can require significant time, expense and capital without the ability to realize revenue, if any. If our sales cycle unexpectedly lengthens for one or more large projects, it would negatively affect the timing of our revenue, and hinder our revenue growth. Furthermore, a delay in our ability to obtain a signed agreement or other persuasive evidence of an arrangement or to complete certain contract requirements in a particular fiscal quarter could reduce our revenue in that period. These delays or failures can cause our gross margin and profitability to fluctuate significantly from quarter to quarter. Overall, any significant failure to generate or recognize revenue or delays in recognizing revenue after incurring costs related to our sales processes or services performed in a particular fiscal period, due to factors such as lack of a fully executed agreement with the client, failure to satisfy other elements of generally accepted accounting standards for revenue recognition or otherwise, could have a material adverse effect on our business, financial condition and results of operations in such fiscal period or otherwise.

***We may not be able to recognize revenue in the period in which our services are performed, which may cause our revenue and margins to fluctuate.***

Our services are performed under both time-and-material and fixed-price arrangements. All revenue is recognized pursuant to generally accepted accounting standards. These standards require us to recognize revenue once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable and collectability is reasonably assured. If we perform our services prior to the period when we are able to recognize the associated revenue, which may be due to our failure to obtain fully executed contracts from our clients during the performance period of our services, our revenue and margins may fluctuate significantly from quarter to quarter.

Additionally, a portion of our revenue is obtained from fixed-price arrangements with our clients. Payment of our fees on fixed-price contracts is based on our ability to provide deliverables on certain dates or meet certain defined milestones. Our failure to produce the deliverables or meet the project milestones in accordance with agreed upon specifications or timelines, or otherwise meet a client's expectations, may result in non-payment of invoices, termination of engagements and our having to record the cost related to the performance of services in the period that services were rendered, but delay the timing of revenue recognition to a future period in which the milestone is met, if we are able to achieve such milestone at all.

***Unexpected costs or delays could make our contracts unprofitable.***

A portion of our client engagements represent fixed-price engagements. When making proposals for engagements, especially our fixed-price engagements, we estimate the costs and timing for completion of the projects. These estimates reflect our best judgment regarding the efficiencies of our methodologies, staffing of resources, complexities of the engagement and costs. The profitability of our engagements, and in particular our fixed-price contracts, may be adversely affected by our ability to accurately estimate effort and resources needed to complete the project, increased or unexpected costs or unanticipated delays in connection with the performance of these engagements, including delays caused by factors outside our control, which could make these contracts less profitable or unprofitable. If we underestimate the effort and resources required to complete a project and cannot recoup additional costs from our client, or if we endure additional costs or delays, and cannot complete the project, our utilization rates may lower as we remediate project issues, our profit from these engagements may be adversely affected and we may be subject to litigation claims.

***Our quarterly financial position, revenue, operating results and profitability are challenging to predict and may vary from quarter to quarter, which could cause our share price to decline significantly.***

Our quarterly revenue, operating results and profitability have varied in the past and are likely to vary significantly from quarter to quarter in the future. The factors that are likely to cause these variations include:

- unanticipated contract or project terminations, or reductions in scope or size of IT engagements
- the continuing financial stability and growth prospects of our clients
- our ability to recognize the revenue associated with the services performed in the applicable fiscal period due to factors, including having fully signed contractual agreements with our clients for such periods or our ability to produce the deliverables or meet the project milestones in accordance with agreed upon specifications or timelines in the applicable fiscal period
- general economic conditions
- the number, timing, scope and contractual terms of IT projects in which we are engaged
- delays in project commencement or staffing delays due to immigration issues or our inability to assign appropriately skilled or experienced personnel
- the accuracy of estimates of resources, time and fees required to complete fixed-price projects and costs incurred in the performance of each project
- changes in pricing in response to client demand and competitive pressures
- the mix of onsite and offshore staffing
- the mix of leadership and senior technical resources to junior engineering resources staffed on each project
- unexpected changes in the utilization rate of our IT professionals

- seasonal trends, primarily our hiring cycle and the budget and work cycles of our clients
- the ratio of fixed-price contracts to time-and-materials contracts
- employee wage levels and increases in compensation costs, including timing of promotions and annual pay increases, particularly in India and Sri Lanka
- our ability to have the client reimburse us for travel and living expenses, especially the airfare and related expenses of our Indian and Sri Lankan offshore personnel traveling and working onsite in the United States or the United Kingdom
- acquisitions, including transaction-related costs and write-downs from future impairments of identified intangible assets and goodwill, and other one-time, non-recurring projects

As a result, our revenue and our operating results for a particular period are challenging to predict and may decline in comparison to corresponding prior periods regardless of the strength of our business. Our future revenue is also challenging to predict because we derive a substantial portion of our revenue from fees for services generated from short-term contracts that may be terminated or delayed by our clients without penalty. In addition, a high percentage of our operating expenses, particularly related to salary expense, rent, depreciation expense and amortization of purchased intangible assets, are relatively fixed in advance of any particular quarter and are based, in part, on our expectations as to future revenue. If we are unable to predict the timing or amounts of future revenue accurately, we may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall and fail to meet our forecasts. Unexpected revenue shortfalls may also decrease our gross margins and could cause significant changes in our operating results from quarter to quarter. As a result, and in addition to the factors listed above, any of the following factors could have a significant and adverse impact on our operating results, could result in a shortfall of revenue and could result in losses to us:

- a client's decision not to pursue a new project or proceed to succeeding stages of a current project
- the completion during a quarter of several major client projects resulting in our having to pay underutilized team members in subsequent periods
- adverse business decisions of our clients regarding the use of our services
- our inability to transition team members quickly from completed projects to new engagements
- our inability to manage costs, including personnel, infrastructure, facility and support services costs
- exchange rate fluctuations

Due to the foregoing factors, it is possible that in some future periods our revenue and operating results may not meet the expectations of securities analysts or investors. If this occurs, the trading price of our common stock could fall substantially either suddenly, or over time, and our business, financial condition and results of operations would be adversely affected.

***Adverse or uncertain conditions in the global economy could negatively impact our clients and therefore our results of operations.***

Regional and global economic weakness and uncertainty have resulted in some companies reassessing their spending for technology and IT related projects and services. Our revenue and profitability depend on the overall demand for IT services from our clients, including discretionary IT spending. Portions of our expenses are fixed and other expenses are tied to expected levels of utilization. To the extent that we do not achieve anticipated levels of revenue growth, our gross profit and net income could be adversely affected until such expenses are reduced to an appropriate level.

***A significant or prolonged economic downturn in the IT services industry, or industries in which we focus, may result in our clients reducing or postponing spending on the services we offer.***

Our revenue is dependent on us entering into large contracts for our services with a limited number of clients each year. As we are not the exclusive IT service provider for our clients, the volume of work that we perform for any specific client is likely to vary from year to year. There are a number of factors, other than our performance, that could affect the size, frequency and renewal rates of our client contracts. For instance, if economic conditions weaken or deteriorate in the IT services industry, or in any industry in which we focus, our clients may reduce or postpone their IT spending significantly which may, in turn, lower the demand for our services and negatively affect our revenue and profitability. As a way of dealing with a challenging economic environment, clients may change their outsourcing strategy by performing more work in-house or replacing their existing software with packaged software supported by the licensor. The loss of, or any significant decline in business from, one or more of our major clients likely would lead to a significant decline in our revenue and operating margins, particularly if we are unable to make corresponding reductions in our expenses in the event of any such loss or decline. Moreover, a significant change in the liquidity or financial position of any of these clients could have a material adverse effect on the collectability of our accounts receivable, liquidity and future operating results.

***We may be audited by software vendors from whom we license or use their software to train our resources or serve our clients, which may result in claims for infringement, violations of license provisions or other damages.***

From time to time, we are subject to audit by our vendors from whom we license and use software to confirm compliance with usage and deployment requirements. If as a result of these audits or otherwise, vendors believe that we have committed usage or deployment violations, we may be required to purchase software from these vendors, and we may be subject to claims of infringement or wrongful usage which may result in legal liability to us, including damages, legal fees and expenses. In addition to legal liability and related expense of any litigation, which may include damages and the obligations to purchase software from such software vendor, we may be prevented from using the vendor's software in the future which may have a material and negative impact on our ability to service our customers, conduct training of our IT professionals and generally perform our services.

***Negative public perception in the markets in which we sell services regarding offshore IT service providers and proposed anti-outsourcing legislation may adversely affect demand for our services.***

We have based our growth strategy on certain assumptions regarding our industry, services and future demand in the market for such services. However, the trend to outsource IT services may not continue and could reverse. Offshore outsourcing is a politically sensitive topic in the United States and the United Kingdom. For example, recently many organizations and public figures in the United States and the United Kingdom have publicly expressed concern about a perceived association between offshore outsourcing providers and the loss of jobs in their home countries. In addition, there has been recent publicity about the negative experience of certain companies that use offshore outsourcing, particularly in India. Current or prospective clients may elect to perform such services themselves or may be discouraged from transferring these services from onshore to offshore providers to avoid negative perceptions that may be associated with using an offshore provider. Any slowdown or reversal of existing industry trends towards offshore outsourcing would seriously harm our ability to compete effectively with competitors that operate out of facilities located in the United States or the United Kingdom. Legislation in the United States or in certain European countries may be enacted that is intended to discourage or restrict outsourcing. Any changes to existing laws or the enactment of new legislation restricting offshore outsourcing in the United States or the United Kingdom may adversely affect our ability to do business in the United States or in the United Kingdom, particularly if these changes are widespread, and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

***We may not be able to obtain, develop or implement new systems, infrastructure, procedures and controls that are required to support our operations, maintain cost controls, market our services and manage our relationships with our clients.***

To manage our operations effectively, we must continue to maintain and may need to enhance our IT infrastructure, financial and accounting systems and controls and manage expanded operations in several locations. We also must attract, integrate, train and retain qualified personnel, especially in the areas of accounting, internal audit and financial disclosure. Further, we will need to manage our relationships with various clients, vendors and other third parties. We may not be able to develop and implement on a timely basis, if at all, the systems, infrastructure procedures and controls required to support our operations, including infrastructure management, and controls regarding usage and deployment of hardware and software, for performance of our services. Any failure by us to comply with these controls or our contractual obligations could result in legal liability to us, which would have a negative impact on our consolidated statements of income and consolidated balance sheets. Additionally, some factors, like changes in immigration laws or visa processing restrictions that limit our ability to engage offshore resources at client locations in the United States, the United Kingdom or other countries, are outside of our control. Our future operating results will also depend on our ability to develop and maintain a successful sales organization and processes that can ensure our ability to effectively monitor, manage and forecast our sales activities and resource needs. If we are unable to manage our operations effectively, our operating results could fluctuate from quarter to quarter and our financial condition could be materially adversely affected.

***The failure to successfully and timely implement certain financial system changes to improve operating efficiency and enhance our reporting controls could harm our business.***

We have implemented and continue to install several upgrades and enhancements to our financial systems. We expect these initiatives to enable us to achieve greater operating and financial reporting efficiency and also enhance our existing control environment through increased levels of automation of certain processes. Failure to successfully implement and execute these initiatives in a timely, effective and efficient manner could significantly increase our costs, distract our management and could result in the disruption of our operations, the inability to comply with our Sarbanes-Oxley obligations and the inability to report our financial results in a timely and accurate manner.

***Our failure to anticipate rapid changes in technology may negatively affect demand for our services in the marketplace.***

Our success will depend, in part, on our ability to develop and implement business and technology solutions that anticipate rapid and continuing changes in technology, industry standards and client preferences. We may not be successful in anticipating or responding to these developments on a timely basis, which may negatively affect demand for our solutions in the marketplace. Also, if our competitors respond faster than we do to changes in technology, industry standards and client preferences, we may lose business and our services may become less competitive or obsolete. Any one or a combination of these circumstances could have a material adverse effect on our ability to obtain and successfully complete client engagements.

***Interruptions or delays in service from our third-party providers could impair our global delivery model, which could result in client dissatisfaction and a reduction of our revenue.***

We depend upon third parties to provide a high speed network of active voice and data communications 24 hours per day and various satellite and optical links between our global delivery centers and our clients. Consequently, the occurrence of a natural disaster or other unanticipated problems with the equipment or at the facilities of these third-party providers could result in unanticipated interruptions in the delivery of our services. For example, we may not be able to maintain active voice and

data communications between our global delivery centers and our clients' sites at all times due to disruptions in these networks, system failures or virus attacks. Any significant loss in our ability to communicate or any impediments to any IT professional's ability to provide services to our clients could result in a disruption to our business, which could hinder our performance or our ability to complete client projects in a timely manner. This, in turn, could lead to substantial liability to our clients, client dissatisfaction, loss of revenue and a material adverse effect on our business, our operating results and financial condition. We cannot assure you that our business interruption insurance will adequately compensate our clients or us for losses that may occur. Even if covered by insurance, any failure or breach of security of our systems could damage our reputation and cause us to lose clients.

***Some of our client contracts contain restrictions or penalty provisions that, if triggered, could result in lower future revenue and decrease our profitability.***

We have entered in the past, and may in the future enter, into contracts that contain restrictions or penalty provisions that, if triggered, may adversely affect our operating results. For instance, some of our client contracts provide that, during the term of the contract and for a certain period thereafter ranging from six to twelve months, we may not use the same personnel to provide similar services to any of the client's competitors. This restriction may hamper our ability to compete for and provide services to clients in the same industry. In addition, some contracts contain provisions that would require us to pay penalties or liquidated damages to our clients if we do not meet pre-agreed service level requirements. If any of the foregoing were to occur, our future revenue and profitability under these contracts could be materially harmed.

***We may face liability if we breach our obligations related to the protection, security, and nondisclosure of confidential client information.***

In the course of providing services to our clients, we may have access to confidential client information, including nonpublic personal data. We are bound by certain agreements to use and disclose this information in a manner consistent with the privacy standards under regulations applicable to our clients and are subject to numerous U.S. and foreign jurisdiction laws and regulations designed to protect this information, such as the European Union Directive on Data Protection and various U.S. federal and state laws governing the protection of health or other individually identifiable information. If any person, including a team member of ours, misappropriates client confidential information, or if client confidential information is inappropriately disclosed due to a security breach of our computer systems, system failures or otherwise, or if a security breach occurs on a project on which we are engaged, we may have substantial liabilities to our clients or our clients' customers and may incur substantial liability and penalties in connection with any violation of applicable privacy laws and/or criminal prosecution. In addition, in the event of any breach or alleged breach of our confidentiality agreements with our clients, these clients may terminate their engagements with us or sue us for breach of contract, resulting in the associated loss of revenue and increased costs and damaged reputation. We may also be subject to civil or criminal liability if we are deemed to have violated applicable regulations. We cannot assure you that we will adequately address the risks created by the regulations to which we may be contractually obligated to abide.

In addition, many of our agreements with our clients do not include any limitation on our liability to them with respect to breaches of our obligation to keep the information we receive from them confidential. Although we have general liability insurance coverage, including coverage for errors or omissions, there can be no assurance that coverage will continue to be available on reasonable terms or will be sufficient in amount to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage or changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, results of operations and financial condition.

***Our contractual limitations on liability with our clients and third parties may not be enforceable.***

Under a majority of our agreements with our clients, our liability for breach of certain of our obligations is generally limited to actual damages suffered by the client and is typically capped at the greater of an agreed amount or the fees paid or payable to us for a period of time under the relevant agreement. These limitations and caps on liability may be unenforceable or otherwise may not protect us from liability for damages. In addition, certain liabilities, such as claims of third parties for which we may be required to indemnify our clients or liability for breaches of confidentiality, are generally not limited under those agreements. Our agreements are governed by laws of multiple jurisdictions, therefore the interpretation of such provisions, and the availability of defenses to us, may vary, which may contribute to the uncertainty as to the scope of our potential liability. In addition, many of our agreements with our clients do not include any limitation on our liability to them with respect to breaches of our obligation to keep the information we receive from them confidential.

***Our services may infringe on the intellectual property rights of others, which may subject us to legal liability, harm our reputation, prevent us from offering some services to our clients or distract management.***

We cannot be sure that our services or the deliverables that we develop and create for our clients do not infringe on the intellectual property rights of third parties and infringement claims may be asserted against us or our clients. As the number of patents, copyrights and other intellectual property rights in our industry increase, we believe that companies in our industry will face more frequent infringement claims. These claims may harm our reputation, distract management, increase costs and prevent us from offering some services to our clients. Historically, we have generally agreed to indemnify our clients for all expenses and liabilities resulting from infringement of intellectual property rights of third parties based on the services and deliverables that we have performed and provided to our clients. In some instances, the amount of these indemnities may be greater than the revenue we receive from the client. In addition, as a result of intellectual property litigation, we may be required to stop selling, incorporating or using products that use or incorporate the infringed intellectual property. We may be required to obtain a license or pay a royalty to make, sell or use the relevant technology from the owner of the infringed intellectual property. Such licenses or royalties may not be available on commercially reasonable terms, or at all. We may also be required to redesign our services or change our methodologies so as not to use the infringed intellectual property, which may not be technically or commercially feasible and may cause us to expend significant resources. Subject to certain limitations, under our indemnification obligations to our clients, we may also have to provide refunds to our clients to the extent that we must require them to cease using an infringing deliverable if we are unable to provide a work-around or acquire a license to permit use of the infringing deliverable that we had provided to them as part of a service engagement. If we are obligated to make any such refunds or dedicate time to provide alternatives or acquire a license to the infringing intellectual property, our business and financial condition could be materially adversely affected.

***New and changing corporate governance and public disclosure requirements add uncertainty to our compliance policies and increase our costs of, and time dedicated to, compliance.***

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, other SEC regulations, and the Nasdaq Global Select Market rules, are creating uncertainty for companies like ours. These laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such corporate governance standards.

In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal control over financial reporting and our external auditors' audit of that assessment requires the commitment of significant financial and managerial

resources. We consistently assess the adequacy of our internal control over financial reporting, remediate any control deficiencies that may be identified, and validate through testing that our control is functioning as documented. While we do not anticipate any material weaknesses, the inability of management and our independent registered public accountant to provide us with an unqualified report as to the adequacy and effectiveness, respectively, of our internal controls over financial reporting, including operations of any acquired businesses in the applicable reporting period, for future year ends could result in adverse consequences to us, including, but not limited to, a loss of investor confidence in the reliability of our financial statements, which could cause the market price of our stock to decline.

Our management team and other personnel will need to devote a substantial amount of time to these compliance initiatives. In particular, these obligations will require substantial attention from our senior management and divert its attention away from the day-to-day management of our business, which could materially and adversely affect our business operations.

We are committed to maintaining high standards of corporate governance and public disclosure, and our efforts to comply with evolving laws, regulations and standards in this regard have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In addition, the laws, regulations and standards regarding corporate governance may make it more difficult for us to obtain director and officer liability insurance. Further, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with their performance of duties. As a result, we may face difficulties attracting and retaining qualified board members and executive officers, which could harm our business. If we fail to comply with new or changed laws, regulations or standards of corporate governance, our business and reputation may be harmed.

***Our share price could be adversely affected if we are unable to maintain effective internal controls.***

The accuracy of our financial reporting is dependent on the effectiveness of our internal controls. We are required to provide a report from management to our stockholders on our internal control over financial reporting that includes an assessment of the effectiveness of these controls. Internal control over financial reporting has inherent limitations, including human error, the possibility that controls could be circumvented or become inadequate because of changed conditions, and fraud. Because of these inherent limitations, internal control over financial reporting might not prevent or detect all misstatements or fraud. If we cannot maintain and execute adequate internal control over financial reporting or implement required new or improved controls to ensure the reliability of the financial reporting and preparation of our financial statements for external use, we could suffer harm to our reputation, fail to meet our public reporting requirements on a timely basis, or be unable to properly report on our business and the results of our operations, and the market price of our securities could be materially adversely affected.

***Our global operations expose us to numerous and sometimes conflicting legal and regulatory requirements, and violation of these regulations could harm our business.***

We are subject to numerous, and sometimes conflicting, legal regimes on matters as diverse as anti-corruption, import/export controls, content requirements, trade restrictions, tariffs, taxation, sanctions, immigration, internal and disclosure control obligations, securities regulation, anti-competition, data privacy and protection, employment and labor relations. Some of these legal regimes are in emerging markets where legal systems may be less developed or familiar to us. Compliance with diverse legal requirements is costly, time-consuming and requires significant resources. Violations of one or more of these regulations in the conduct of our business could result in significant fines, criminal sanctions against us or our officers, prohibitions on doing business and damage to our reputation. Violations of these regulations in connection with the performance of our obligations to our clients also could result in liability for significant monetary damages, fines and/or criminal prosecution, unfavorable publicity and other reputational damage, restrictions on our ability to process information and allegations by our clients that

we have not performed our contractual obligations. Due to the varying degrees of development of the legal systems of the countries in which we operate, local laws may not be well developed or provide sufficiently clear guidance and may be insufficient to protect our rights.

In particular, in many parts of the world, including countries in which we operate and/or seek to expand, it is possible that our employees, subcontractors or agents in the local business community might not conform to international business standards and could violate anti-corruption laws, or regulations, including the UK Bribery Act of 2010 and the U.S. Foreign Corrupt Practices Act (“FCPA”) which prohibit improper payments or offers of improper payments to foreign officials to obtain business or any other benefit. The FCPA also requires covered companies to make and keep books and records that accurately and fairly reflect the transactions of the company and to devise and maintain an adequate system of internal accounting controls. Although we have policies and procedures in place that are designed to promote legal and regulatory compliance, our employees, subcontractors and agents could take actions that violate these policies or procedures or applicable anti-corruption laws, regulations or standards. Violations of these laws or regulations by us, our employees or any of these third parties could subject us to criminal or civil enforcement actions (whether or not we participated or knew about the actions leading to the violations), including fines or penalties, disgorgement of profits and suspension or disqualification from work, any of which could materially adversely affect our business, including our results of operations and our reputation.

***The loss of key members of our senior management team may prevent us from executing our business strategy.***

Our future success depends to a significant extent on the continued service and performance of key members of our senior management team. Our growth and success depends to a significant extent on our ability to retain Kris Canekeratne, our chief executive officer, who is a founder of our company and has led the growth, operation, culture and strategic direction of our business since its inception. The loss of his services or the services of other key members of our senior management could seriously harm our ability to execute our business strategy. Although we have entered into agreements with our executive officers providing for severance and change in control benefits to them, each of our executive officers or other key employees could terminate employment with us at any time. We also may have to incur significant costs in identifying, hiring, training and retaining replacements for key employees. The loss of any member of our senior management team might significantly delay or prevent the achievement of our business or development objectives and could materially harm our business. We do not maintain key man life insurance on any of our team members.

**Risks related to our Indian and Sri Lankan operations**

***Political instability or changes in the central or state governments in India could result in the change of several policies relating to foreign direct investment and repatriation of capital and dividends. Further, changes in the monetary and economic policies could adversely affect economic conditions in India generally and our business in particular.***

We have subsidiaries in India and a significant portion of our business, fixed assets and human resources are located in India. As a result, our business is affected by foreign exchange rates and controls, interest rates, local regulations, changes in government policy, taxation, social and civil unrest and other political, economic or other developments in or affecting India. Since 1991, successive Indian governments have pursued policies of economic liberalization. In the past, the Indian economy has experienced many of the problems that commonly confront the economies of developing countries, including high inflation, erratic gross domestic product growth and shortages of foreign exchange. The Indian government has exercised, and continues to exercise, significant influence over many aspects of the Indian economy and Indian government actions concerning the economy could have a material adverse effect on private sector entities like us. In the past, the Indian government has provided significant tax incentives and relaxed certain regulatory restrictions in order to encourage foreign investment in specified sectors of the

economy, including the software development services industry. Programs that have benefited us include, among others, tax holidays, liberalized import and export duties and preferential rules on foreign investment and repatriation. Notwithstanding these benefits, as noted above, India's central and state governments remain significantly involved in the Indian economy as regulators. In recent years, the Indian government has introduced non-income related taxes, including the fringe benefit tax (which was repealed as of April 1, 2009) and new service taxes, and income-related taxes, including the Minimum Alternative Tax. In addition, a change in government leadership in India or change in policies of the existing government in India that results in the elimination of any of the benefits realized by us from our Indian operations or the imposition of new taxes applicable to such operations could have a material adverse effect on our business, results of operations and financial condition. For instance, certain changes to the application of the Minimum Alternative Tax with respect to Special Economic Zone ("SEZ") units may negatively impact our cash flows and other benefits enjoyed by us which could have a material adverse effect on our business, results of operations and financial condition.

***Changes in the policies or political stability of the government of Sri Lanka could adversely affect economic conditions in Sri Lanka, which could adversely affect our business.***

Our subsidiary in Sri Lanka has been approved as an export computer software developer by the Board of Investment ("BOI") in Sri Lanka, which is a statutory body organized to facilitate foreign investment into Sri Lanka and grant concessions and benefits to entities with which it has entered into agreements. Pursuant to our current agreement with the BOI, our Sri Lankan subsidiary is entitled to an exemption from income taxation on export revenue for a period of 12 years expiring on March 31, 2019 provided that certain job creation and retention requirements were met by March 31, 2015. We believe we have achieved the job criteria and have notified the BOI. The BOI on review could challenge our hiring commitments in which case we would have to forego part of the 12 year tax holiday. Further, government policies relating to taxation other than on income would also have an impact on the subsidiary, and the political, economic or social factors in Sri Lanka may affect these policies. Historically, past incumbent governments have followed policies of economic liberalization. However, we cannot assure you that the current government or future governments will continue these liberal policies.

***Regional conflicts or terrorist attacks and other acts of violence or war in the United States, the United Kingdom, India and Sri Lanka, or other regions could adversely affect financial markets, resulting in loss of client confidence and our ability to serve our clients which, in turn, could adversely affect our business, results of operations and financial condition.***

The Asian region has from time to time experienced instances of civil unrest and hostilities among neighboring countries, including between India and Pakistan. Since May 1999, military confrontations between India and Pakistan have occurred in Kashmir. Also, there have been military hostilities and civil unrest in Iraq and Afghanistan. Terrorist attacks, such as the ones that occurred in Boston on April 15, 2013, New York and Washington, D.C., on September 11, 2001, New Delhi on December 13, 2001, Bali on October 12, 2002, London on July 7, 2005, and Mumbai on November 26, 2008, civil or political unrest and military hostilities in Sri Lanka and other acts of violence or war, including those involving India, Sri Lanka, the United States, the United Kingdom or other countries, may adversely affect U.S., U.K. and worldwide financial markets. Prospective clients may wish to visit several of our facilities, including our global delivery centers in India or Sri Lanka, prior to reaching a decision on vendor selection. Terrorist threats, attacks and international conflicts could make travel more difficult and cause potential clients to delay, postpone or cancel decisions to use our services. In addition, such attacks may have an adverse impact on our ability to operate effectively and interrupt lines of communication and restrict our offshore resources from traveling onsite to client locations, effectively curtailing our ability to deliver our services to our clients. These obstacles may increase our expenses and negatively affect our operating results. In addition, military activity, terrorist attacks, political tensions between India and Pakistan and, historically, conflicts within Sri Lanka, despite the current cessation of hostilities, could create a greater perception that

the acquisition of services from companies with significant Indian or Sri Lankan operations involves a higher degree of risk that could adversely affect client confidence in India or Sri Lanka as a software development center, each of which would have a material adverse effect on our business.

***Our net income may decrease if the governments of the United States, the United Kingdom, the Netherlands, India, Sri Lanka, Germany, Singapore, Sweden or Hungary adjust the amount of our taxable income by challenging our transfer pricing policies.***

Our subsidiaries conduct intercompany transactions among themselves and with the U.S. parent company on an arm's-length basis in accordance with U.S. and local country transfer pricing regulations. The jurisdictions in which we operate could challenge our determination of arm's-length profit and issue tax assessments. Although the United States has income tax treaties with most countries in which we have operations, which should alleviate the risk of double taxation, the costs to appeal any such tax assessment and potential interest and penalties could decrease our earnings and cash flows.

The Indian taxing authorities issued assessment orders for the fiscal years ended March 31, 2004 to March 31, 2010 of our Indian subsidiary, Virtusa (India) Private Limited, now merged with and into our affiliate, Virtusa Consulting Services Private Limited (referred to as "Virtusa India"). At issue in these assessments were several matters, the most significant of which was the redetermination of the arm's-length profit related to intercompany transactions. For fiscal year ended March 31, 2004 and 2005, we contested both assessments and also filed appeals with Indian tax authorities and U.S. Competent Authorities. Although we have settled certain tax obligations for the fiscal years ended March 31, 2004 and 2005, we have appealed certain other tax related matters effecting our fiscal year ended March 31, 2004 and 2005 with the Indian tax authorities. During the fiscal year ended March 31, 2005, we have appealed the redetermination of arm length pricing for transactions with our U.K. subsidiary. Although we have successfully resolved some issues we continue to appeal several other fiscal years' assessments with the Indian tax authorities. If we do not prevail in our appeals, we may incur an additional legal liability and obligations to pay additional interest, penalties and costs related to such matters.

***Our net income may decrease if the governments of India or Sri Lanka levy new taxes or reduce or withdraw tax benefits and other incentives provided to us.***

Virtusa India is an export-oriented company under the Indian Income Tax Act of 1961 and is entitled to claim tax exemption for each Software Technology Park ("STP"), which it operates. Virtusa India historically has operated STPs in Hyderabad and in Chennai. The income tax benefits of the STP in Hyderabad and Chennai expired on March 31, 2010 and 2011, respectively. Historically, however, substantially all of the earnings of both STPs qualified as tax- exempt export profits. Although we believe we have complied with and were eligible for the STP holidays, the government of India may deem us ineligible for the STP holiday or make adjustments to the profit level in previous tax years, subject to the applicable statute of limitations, which could result in additional legal liability, including obligations to pay additional taxes, penalties, interest and other costs arising out of such matter. For instance, the Indian taxing authorities issued an assessment order for the fiscal years ended March 31, 2007 against Virtusa India related to the denial of all STP benefits for our Chennai STP on the basis that the STP was formed by the splitting up or the reconstruction of our Hyderabad STP. This matter is currently pending before the High Court of Hyderabad. We have filed appeals with the appropriate Indian tax authorities to appeal other years. We may incur additional legal liability and obligations to pay additional interest, penalties and costs related to such matter. We have appealed such assessments but we can make no assurance that our appeals will be successful.

We have located most of our Indian operations in areas designated as a SEZ, under the SEZ Act of 2005. In particular, we are continuing our build out of a facility on a 6.3 acre parcel of land in Hyderabad, India that has been designated as a SEZ. In addition, we have leased space and operate in SEZ designated locations in Bangalore, Pune and Chennai, India. Although our profits from the SEZ operations would be

eligible for certain income tax exemptions for a period up to 15 years, we may not be able to take full advantage of the tax holidays in each SEZ if we are not able to grow our operations, including the hiring of IT professionals into the SEZ facilities, and there is no guarantee that we will secure SEZ status for any other future locations in India. Additionally, the government of India may deem us ineligible for a SEZ holiday or make adjustments to the transfer pricing profit levels resulting in an overall increase in our effective tax rate.

In addition, our Sri Lankan subsidiary, Virtusa Private Ltd. (“Virtusa SL”), was approved as an export computer software developer by the BOI in 1998 and has been granted a tax holiday. Virtusa SL has negotiated various extensions and new arrangements of the original holiday period in exchange for further capital investments in Sri Lanka facilities. The most recent 12-year tax holiday agreement, which is set to expire on March 31, 2019, requires that we meet certain new job creation, retention and investment criteria. As of March 31, 2015, we believe we have met the job creation target. We have submitted the required details to BOI and are awaiting their confirmation. At March 31, 2015, we were eligible for the entire 12-year tax holiday. Further, the Sri Lankan Department of Inland Revenue has challenged the eligibility of the initial year of our granted tax holiday. This challenge was affirmed by the Tax Appeals Commission based on their judgment that we did not meet the required investment commitments. However, during the fiscal year ended March 31, 2014, we received notice from the BOI certifying the tax holiday for all previously claimed years, including the initial year under challenge. If any such tax assessment were ruled against us, such a ruling may materially harm our business, operating results, and financial results and materially reduce our profitability.

***Wage pressures and increases in government mandated benefits in India and Sri Lanka may reduce our profit margins.***

Wage costs in India and Sri Lanka have historically been significantly lower than wage costs in the United States and Europe for comparably-skilled professionals. However, wages in India and Sri Lanka are increasing, which will result in increased costs for IT professionals, particularly project managers and other mid-level professionals. We may need to increase the levels of our team member compensation more rapidly than in the past to remain competitive without the ability to make corresponding increases to our billing rates. Compensation increases may reduce our profit margins, make us less competitive in pricing potential projects against those companies with lower cost resources and otherwise harm our business, operating results and financial condition.

In addition, we contribute to benefit funds covering our employees in India and Sri Lanka as mandated by the Indian and Sri Lankan governments. Benefits are based on the team members’ years of service and compensation. If the governments of India and/or Sri Lanka were to legislate increases to the benefits required under these plans or mandate additional benefits, our profitability and cash flows would be reduced.

***Our facilities are at risk of damage by earthquakes, tsunamis and other natural disasters.***

In December 2004, Sri Lanka and India were struck by multiple tsunamis that devastated certain areas of both countries. Our Indian and Sri Lankan facilities are located in regions that are susceptible to tsunamis and other natural disasters, which may increase the risk of disruption of information systems and telephone service for sustained periods. Damage or destruction that interrupts our ability to deliver our services could damage our relationships with our clients and may cause us to incur substantial additional expense to repair or replace damaged equipment or facilities. Our insurance coverage may not be sufficient to cover all such expenses. Furthermore, we may be unable to secure such insurance coverage or to secure such insurance coverage at premiums acceptable to us in the future. Prolonged disruption of our services as a result of natural disasters may cause our clients to terminate their contracts with us and may result in project delays, project cancellations and loss of substantial revenue to us. Prolonged disruptions

may also harm our team members or cause them to relocate, which could have a material adverse effect on our business.

***The laws of India and Sri Lanka do not protect intellectual property rights to the same extent as those of the United States and we may be unsuccessful in protecting our intellectual property rights. Unauthorized use of our intellectual property rights may result in loss of clients and increased competition.***

Our success depends, in part, upon our ability to protect our proprietary methodologies, trade secrets and other intellectual property. We rely upon a combination of trade secrets, confidentiality policies, non-disclosure agreements, other contractual arrangements and copyright, patent, and trademark laws to protect our intellectual property rights. However, existing laws of India and Sri Lanka do not provide protection of intellectual property rights to the same extent as provided in the United States. The steps we take to protect our intellectual property may not be adequate to prevent or deter infringement or other unauthorized use of our intellectual property. Thus, we may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights. Our competitors may be able to imitate or duplicate our services or methodologies. The unauthorized use or duplication of our intellectual property could disrupt our ongoing business, distract our management and team members, reduce our revenue and increase our costs and expenses. We may need to litigate to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could be extremely time-consuming and costly and could materially adversely impact our business.

#### **Risks related to our common stock**

***The market price of our common stock may fluctuate significantly.***

The market price of our common stock has at times experienced substantial price volatility as a result of variations between our actual and anticipated financial results, announcements by us and our competitors, projections or speculation about our business or that of our competitors by the media or investment analysts or uncertainty about current global economic conditions. The stock market, as a whole, also has experienced extreme price and volume fluctuations that have affected the market price of the common stock of many technology companies in ways that may have been unrelated to such companies' operating performance. Furthermore, we believe the market price of our common stock should reflect future growth and profitability expectations. If we fail to meet these expectations, the market price of our common stock may significantly decline.

In addition, there are many other factors that may cause the market price of our common stock to fluctuate, including:

- actual or anticipated variations in our quarterly operating results, including fluctuations resulting from changes in foreign exchange rates or acquisitions by us, or the quarterly financial results of companies perceived to be similar to us
- deterioration and decline in general economic, industry and/or market conditions
- announcements of technological innovations or new services by us or our competitors
- changes in estimates of our financial results or recommendations by market analysts
- announcements by us or our competitors of significant projects, contracts, acquisitions, strategic alliances or joint ventures
- changes in our capital structure, such as future issuances of securities or the incurrence of additional debt
- regulatory developments in the United States, the United Kingdom, India, Sri Lanka or other countries in which we operate or have clients

- litigation involving our company, our general industry or both
- additions or departures of key team members
- investors' general perception of us
- changes in the market valuations of other IT service providers

If any of the foregoing occurs or continues to occur, it could cause our stock price to fall and may expose us to securities class action litigation. Any securities class action litigation could result in substantial costs and the diversion of management's attention and resources. Many of these factors are beyond our control.

***Provisions in our charter documents and under Delaware law may prevent or delay a change of control of us and could also limit the market price of our common stock.***

Certain provisions of Delaware law and of our certificate of incorporation and by-laws could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of us, even if such a change in control would be beneficial to our stockholders or result in a premium for your shares of our common stock. These provisions may also prevent or frustrate attempts by our stockholders to replace or remove our management. These provisions include:

- a classified board of directors
- limitations on the removal of directors
- advance notice requirements for stockholder proposals and nominations
- the inability of stockholders to act by written consent or to call special meetings
- the ability of our board of directors to make, alter or repeal our by-laws

The affirmative vote of the holders of at least 75% of our shares of capital stock entitled to vote is necessary to amend or repeal the above provisions that are contained in our certificate of incorporation. In addition, our board of directors has the ability to designate the terms of and issue new series of preferred stock without stockholder approval. Also, absent approval of our board of directors, our by-laws may only be amended or repealed by the affirmative vote of the holders of at least 75% of our shares of capital stock entitled to vote.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which limits business combination transactions with stockholders of 15% or more of our outstanding voting stock that our board of directors has not approved. These provisions and other similar provisions make it more difficult for stockholders or potential acquirers to acquire us without negotiation. These provisions may apply even if some stockholders may consider the transaction beneficial to them.

These provisions could limit the price that investors are willing to pay in the future for shares of our common stock. These provisions might also discourage a potential acquisition proposal or tender offer, even if the acquisition proposal or tender offer is at a premium over the then current market price for our common stock.

**Item 1B. *Unresolved Staff Comments.***

None.

**Item 2. Properties.**

Our principal executive offices are located in Westborough, Massachusetts where we lease approximately 22,147 square feet for a term expiring February 28, 2018.

We both own and lease facilities to support our operations, At March 31, 2015, we leased 501,541 square feet and owned 325,000 square feet in four countries to deliver services globally to our clients, as set forth in the table below:

<u>Global Delivery Location</u>	<u>Number of Locations</u>	<u>Square Footage Leased</u>	<u>Square Footage Owned</u>	<u>Total Square Footage</u>	<u>Lease period</u>
India . . . . .	10	276,785	325,000	601,785	1 - 4 years
United states . . . . .	1	23,659	—	23,659	6 years
Sri Lanka . . . . .	6	195,930	—	195,930	1 - 3 years
Singapore . . . . .	1	5,167	—	5,167	3 years
Total . . . . .	18	501,541	325,000	826,541	

In March 2008, we entered into a 99-year lease, as amended in August 2008, with an option for an additional 99 years for approximately 6.3 acres of land in Hyderabad, India, where we have built a campus of approximately 325,000 square feet, which is listed in the above table under “Square Footage Owned”.

We have sales and business development offices located in New York, the United Kingdom, Germany, Austria and Sweden. We also have a sales and delivery office in Windsor, Connecticut. These leases vary in duration and have expiration dates ranging from one year to five years.

We believe that our existing and planned facilities are adequate to support our existing operations and that, as needed, we will be able to obtain suitable additional facilities on commercially reasonable terms.

**Item 3. Legal Proceedings.**

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of our management, the outcome of such claims and legal actions, if decided adversely, is not currently expected to have a material adverse effect on our operating results, cash flows or consolidated financial position.

**Item 4. Mine Safety Disclosures.**

Not applicable.

## PART II

### **Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Our common stock trades on the Nasdaq Global Select Market under the symbol "VRTU". The following table sets forth, for the periods indicated, the high and low sale prices for our common stock during our fiscal years ended March 31, 2015 and March 31, 2014, respectively, as reported on the Nasdaq Global Select Market.

	<u>High</u>	<u>Low</u>
<b>Fiscal 2014:</b>		
First quarter . . . . .	\$26.39	\$21.29
Second quarter . . . . .	\$30.70	\$22.16
Third quarter . . . . .	\$38.49	\$25.60
Fourth quarter . . . . .	\$38.05	\$32.25
<b>Fiscal 2015:</b>		
First quarter . . . . .	\$36.36	\$31.21
Second quarter . . . . .	\$37.07	\$31.09
Third quarter . . . . .	\$42.50	\$33.73
Fourth quarter . . . . .	\$42.50	\$36.56

As of May 15, 2015, there were approximately 29,647,865 shares of our common stock outstanding held by approximately 156 stockholders of record and the last reported sale price of our common stock on the Nasdaq Global Select Market on May 15, 2015 was \$45.65 per share.

#### **Dividend Policy**

We have never declared or paid any cash dividends on our capital stock. We currently expect to retain future earnings, if any, to finance the growth and development of our business and we do not anticipate paying any cash dividends in the foreseeable future. We intend to permanently reinvest our foreign earnings. Our line of credit with a bank could restrict our ability to declare or make any dividends or similar distributions.

#### **Equity Compensation Plan Information**

The following table provides information as of March 31, 2015 with respect to the shares of our common stock that may be issued under our existing equity compensation plans. We have three equity compensation plans, each of which has been approved by our stockholders: (1) the Amended and Restated 2000 Stock Option Plan, which we refer to as the 2000 Plan; (2) the 2005 Stock Appreciation Rights Plan, which we refer to as the SAR Plan; and (3) the 2007 Stock Option and Incentive Plan, which we refer to as the 2007 Plan. For additional information on our equity compensation plans, including the material

features of plans not approved by our stockholders, please see note 11 to the consolidated financial statements included elsewhere in this Annual Report.

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted Average Exercise Price of Outstanding Options Warrants and Rights</u>	<u>Number of Securities Available for Future Issuance Under Equity Compensation Plans</u>
Equity compensation plans approved by security holders—stock options(1) . . . . .	806,856	\$13.15	2,371,828(2)(3)
Equity compensation plans approved by security holders—stock appreciation rights(4) . . . . .	5,110	\$ 4.04	—(2)
Total . . . . .	811,966		2,371,828

(1) Consists of the 2000 Plan and the 2007 Plan.

(2) In the event that any stock option issued under the 2000 Plan or any stock appreciation right issued under the SAR Plan terminates without being exercised, the number of shares underlying such option or stock appreciation right becomes available for grant under the 2007 Plan. No further awards are authorized to be granted under the 2000 Plan or the SAR Plan.

(3) Under the 2007 Plan, the number of shares reserved and available for issuance under the 2007 Plan is automatically increased each April 1 by 2.9% of the outstanding number of shares of common stock outstanding on the immediately preceding March 31 or such lower number of shares of common stock as determined by our board of directors.

(4) Consists of the SAR Plan.

#### **Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities**

None.

#### **Issuer Purchases of Equity Securities**

Under the terms of our 2007 Plan, we have issued shares of restricted stock to our employees. On the date that these restricted shares vest, we automatically withhold, via a net exercise provision pursuant to our applicable restricted stock agreements and the 2007 Plan, the number of vested shares (based on the closing price of our common stock on such vesting date) equal to tax liability owed by such grantee. The shares withheld from the grantees to settle their tax liability are reallocated to the number of shares available for issuance under the 2007 Plan. For the three month period ended March 31, 2015, we withheld an aggregate of 14,695 shares of restricted stock at a price of \$40.57 per share.

**Item 6. Selected Financial Data.**

The selected historical financial data set forth below at March 31, 2015 and 2014 and for the fiscal years ended March 31, 2015, 2014 and 2013 are derived from our consolidated financial statements which are included elsewhere in this Annual Report on Form 10-K. The selected historical financial data at March 31, 2013, 2012 and 2011 and for the fiscal years ended March 31, 2012 and 2011 are derived from our consolidated financial statements which are not included elsewhere in this Annual Report. The following selected consolidated financial data should be read in conjunction with our consolidated financial statements, the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Annual Report. The historical results are not necessarily indicative of the results to be expected for any future period.

**Consolidated statements of income data**

	Fiscal Year Ended March 31,				
	2015	2014	2013	2012	2011
	(In thousands, except share and per share amounts)				
Revenue . . . . .	\$ 478,986	\$ 396,933	\$ 333,175	\$ 277,771	\$ 217,979
Costs of revenue . . . . .	304,422	250,533	215,866	177,434	134,496
Gross profit . . . . .	174,564	146,400	117,309	100,337	83,483
Operating expenses . . . . .	121,996	103,988	84,450	76,438	65,697
Income from operations . . . . .	52,568	42,412	32,859	23,899	17,786
Other income . . . . .	4,832	3,512	3,000	2,547	441
Income before income tax expense . . . . .	57,400	45,924	35,859	26,446	18,227
Income tax expense . . . . .	14,954	11,549	7,461	6,411	2,027
Net income . . . . .	\$ 42,446	\$ 34,375	\$ 28,398	\$ 20,035	\$ 16,200
Basic earnings per share . . . . .	\$ 1.48	\$ 1.32	\$ 1.14	\$ 0.81	\$ 0.68
Diluted earnings per share . . . . .	\$ 1.44	\$ 1.27	\$ 1.11	\$ 0.79	\$ 0.66
Weighted average number of common shares outstanding					
Basic . . . . .	28,753,102	26,116,516	24,937,162	24,643,063	23,783,457
Diluted . . . . .	29,555,624	26,973,001	25,638,839	25,383,650	24,714,808

**Consolidated balance sheets data**

	At March 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Cash and cash equivalents . . . . .	\$124,802	\$ 82,761	\$ 57,199	\$ 58,105	\$ 50,218
Working capital . . . . .	\$286,034	\$193,319	\$145,650	\$119,013	\$123,264
Total assets . . . . .	\$489,737	\$449,425	\$303,919	\$274,794	\$246,177
Total stockholders’ equity . . . . .	\$423,775	\$374,070	\$252,207	\$218,174	\$207,336

**Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis of our financial condition and results of our operations should be read together with our consolidated financial statements and related notes to consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The following discussion contains forward-looking statements. Actual results may differ significantly from those projected in the forward-looking statements.

*Factors that might cause future results to differ materially from those projected in the forward-looking statements include, but are not limited to, those discussed in “Risk Factors” and elsewhere in this Annual Report.*

## **Business overview**

We are a global information technology services company. We use an offshore delivery model to provide a broad range of IT services, including IT consulting, technology implementation and application outsourcing. Using our enhanced global delivery model, innovative platforming approach and industry expertise, we provide cost-effective services that enable our clients to use IT to enhance business performance, accelerate time-to-market, increase productivity and improve customer service. Headquartered in Massachusetts, we have offices in the United States, the United Kingdom, Sweden, Germany and Austria, and global delivery centers in India, Sri Lanka, Hungary, Singapore and Malaysia, as well as a near shore center in the United States. At March 31, 2015, we had 9,247 employees, or team members, an increase from 8,054 at March 31, 2014. For the fiscal year ended March 31, 2015, we had revenue of \$479.0 million and income from operations of \$52.6 million. In our fiscal year ended March 31, 2015, our revenue increased by \$82.1 million, or 20.7%, to \$479.0 million, as compared to \$396.9 million in our fiscal year ended March 31, 2014. Our net income increased from \$34.4 million in our fiscal year ended March 31, 2014 to \$42.4 million in our fiscal year ended March 31, 2015.

The key drivers of the increase in revenue in our fiscal year ended March 31, 2015, as compared to our fiscal year ended March 31, 2014, were as follows:

- Broad based revenue growth among our clients existing at March 31, 2014, particularly our non- top ten clients collectively
- Broad based revenue growth within our communication and technology (“C&T”) and banking financial services and insurance (“BFSI”) industry groups
- Broad based growth in all geographies
- Revenue generated from clients acquired by us in the acquisition of OSB Consulting LLC (“OSB”) on November 1, 2013 and TradeTech Consulting Scandinavia AB and its subsidiaries (“TradeTech”) on January 2, 2014

The key drivers of our increase in net income in our fiscal year ended March 31, 2015, as compared to our fiscal year ended March 31, 2014, were as follows:

- Higher revenue contribution from existing clients
- Increase in gross profit, which also reflects lower costs due to the depreciation of the Indian rupee, partially offset by higher operating costs, including an increased investment in our sales and business development organization and facilities to support our growth, and acquisition amortization
- Further offset by increased income tax expense related to higher taxable profits

High repeat business and client concentration are common in our industry. During the fiscal year ended March 31, 2015, 87% of our revenue was derived from clients who had been using our services for more than one year. Accordingly, our global account management and service delivery teams focus on expanding client relationships and converting new engagements to long-term relationships to generate repeat revenue and expand revenue streams from existing clients. We also have a dedicated business development team focused on generating engagements with new clients to continue to expand our client base and, over time, reduce client concentration.

For the fiscal years ended March 31, 2015, 2014 and 2013, we generated 55%, 56%, and 58%, respectively, of revenue from application outsourcing and 45%, 44% and 42%, respectively, of revenue

from consulting services. We perform our services under both time-and-materials and fixed-price contracts. Revenue from fixed-price contracts was 37%, 28%, and 18% of total revenue for the fiscal years ended March 31, 2015, 2014 and 2013, respectively. The revenue earned from fixed-price contracts reflects our clients' preferences during the fiscal years ended March 31, 2015, 2014 and 2013.

At March 31, 2015, we had cash and cash equivalents, short-term and long-term investments of \$235.9 million as compared to \$200.7 million at March 31, 2014. The increase related primarily to our growth in income from operations.

From time to time, we have also supplemented organic revenue growth with acquisitions. These acquisitions have focused on adding domain expertise, expanding our professional services teams and expanding our client base. For instance, we acquired the business and assets of OSB Consulting LLC, a New Jersey limited liability company ("OSB") on November 1, 2013 to extend our service offerings to include a broader set of finance transformation services in the financial services and insurance domains, to existing and new clients. Additionally, on January 2, 2014, we acquired all of the outstanding stock of TradeTech Consulting Scandinavia AB and its subsidiaries ("TradeTech") to expand our position within the banking, financial services and insurance industries by increasing our asset management and treasury services domain and technology expertise, as well as expanding our global presence into the Nordics. To strengthen our infrastructure management services ("IMS") practice and solution offerings and enable us to deliver network operating center ("NOC") support through nearshore facilities, as well as IMS services globally, on April 1, 2015, we acquired all of the outstanding shares of Apparatus, Inc., a leading provider of end-to-end IT IMS headquartered in Indianapolis, Indiana ("Apparatus"). We expect that for our long-term growth, we will continue to seek evolving market opportunities through a combination of organic growth and acquisitions.

For the fiscal year ending March 31, 2016, we expect the following factors, among others, to affect our business and our operating results:

- Demand from our clients particularly for millennial and transformational solutions and outsourcing services
- Foreign currency volatility
- Impact of an increased effective income tax rate as a result of a higher tax rate in India and geographical mix of our profits

For the fiscal year ending March 31, 2016, we plan to:

- Invest in millennial and domain-led transformational solutions within core verticals like banking, healthcare, insurance and telecommunications
- Continue our focus on client acquisition and expansion of revenue gained from existing clients, particularly our non- top ten clients
- Leverage our expertise in customer experience management, business process management, user interface ("UI")/user experience ("UX") and SAP
- Deepen our domain expertise in our service offerings related to enterprise mobile applications, social media, gamification, big data analytics and cloud computing
- Broaden our business and IT consulting and solutions capabilities related to our service offerings
- Continue to invest in our talent base, including new onsite campus recruitment programs
- Implement resource and operating optimization initiatives to continue to improve operating efficiencies

- Deepen our solution and service offerings across the software development lifecycle, including application support and maintenance and independent software quality-assurance
- Continue to invest in new and existing offshore delivery centers and expand our near shore delivery centers
- Pursue opportunistic acquisitions that would improve or broaden our overall service delivery capabilities, domain expertise, and / or service offerings

As an IT services company, our revenue growth has been, and will continue to be, highly dependent on our ability to attract, develop, motivate and retain skilled IT professionals. For the fiscal year ended March 31, 2015, we finished the fiscal year with a total headcount of 9,247 as compared with a total headcount of 8,054 for the fiscal year ended March 31, 2014. There is intense competition for IT professionals with the skills necessary to provide the type of services we offer. We closely monitor our overall attrition rates and patterns to ensure our people management strategy aligns with our growth objectives. For the last twelve months ended March 31, 2015, our voluntary attrition rate was 14.7%, while our involuntary attrition rate was 3.7%. The majority of our attrition occurs in India and Sri Lanka, and is weighted towards the more junior members of our staff. In response to higher attrition and as part of our retention strategies, we have experienced increases in compensation and benefit costs, which may continue in the future. However, we try to absorb such cost increases through price increases or cost management strategies such as managing discretionary costs, the mix of professional staff and utilization levels and achieving other operating efficiencies. If our attrition rate increases or is sustained at higher levels, our growth may slow and our cost of attracting and retaining IT professionals could increase.

We have continued to maintain a twelve quarter hedging program, which we believe has been effective since inception at reducing the impact of fluctuations in local currencies on our operating results, although there is no assurance that this hedging program will continue to be effective. These hedges may also cause us to forego benefits of a positive currency fluctuation, especially given the volatility of these currencies. In addition, to the extent that these hedges cease to qualify for hedge accounting, we may have to recognize gains or losses on the aggregate amount of hedges placed earlier than expected.

We monitor a number of operating metrics to manage and assess our earnings, including:

- *Days sales outstanding ("DSO")* is a measure of the number of days our accounts receivable are outstanding based upon the last 90 days of revenue activity, which indicates the timeliness of our cash collection from clients and our overall credit terms to our clients. As of March 31, 2015 and March 31, 2014 our DSO remains unchanged at 74 days.
- *Realized billing rates* are the rates we charge our clients for our services, which reflect the value our clients place on our services, market competition and the geographic location in which we perform our services. Our realized billing rates have remained relatively stable subject to foreign currency exchange fluctuation and inclusive of a significant discount given to one of our largest customers for our fiscal year ended March 31, 2015 as compared to our fiscal year ended March 31, 2014. Any increase in realized billing rates is a result of our ability to successfully preserve or increase our billing rates with existing and/or new clients.
- *Average cost per IT professional* is the sum of team member salaries, including variable compensation, and fringe benefits, divided by the average number of IT professionals during the period. We experienced an increase in our average cost per IT professional in our fiscal year ended March 31, 2015 as compared to our fiscal year ended March 31, 2014, primarily driven by competition.
- *Utilization rate* indicates the efficiency of our billable IT resources. Our utilization rate is defined as the number of billable hours in a given period divided by the total number of available hours of our IT professionals in a given period, excluding trainees. We track our utilization rates to measure

revenue potential and gross profit margins. Management's target for the utilization rate is in the low 80% range. Our utilization rates were 81%, 83% and 78% for the fiscal years ended March 31, 2015, 2014 and 2013 respectively. The utilization rate is affected by the rate of quarterly sequential revenue growth, as well as ability to staff existing IT professionals on billable engagements. In growth periods, utilization tends to rise as more resources are deployed to meet rising demand. Utilization rates above the targeted range may also indicate that there are insufficient IT professionals to staff existing or future engagements, which may result in loss of revenue or inability to service client engagements.

- *Attrition rate* is the ratio of terminated team members during the latest twelve months to the total number of team members at the end of such period, which measures team member turnover. Increased voluntary attrition rates result in increased hiring, training and on-boarding costs and productivity losses, which may adversely affect our revenue, gross margin and operating profit margin. Our voluntary attrition rate was 14.7%, while our involuntary attrition rate was 3.7%, for the fiscal year ended March 31, 2015. Our voluntary attrition rate was 14.8% for the fiscal year ended March 31, 2014, while our involuntary attrition rate was 4.7% for the same fiscal year.
- *Operating expense efficiency* is a measure of operating expenses as a percentage of revenue. If we continue to successfully grow our revenue, we anticipate that operating expenses will decrease as a percentage of revenue as such expenses are absorbed across a larger revenue base. In the near term, however, any operating expense efficiency may decline if our revenue declines.
- *Effective tax rate* is our worldwide tax expense as a percentage of our consolidated net income before tax, which measures the impact of income taxes worldwide on our operations and net income. We monitor and assess our effective tax rate to evaluate whether our tax structure is competitive as compared to our industry. Our effective tax rate was 26.1% and 25.1% for the fiscal years ended March 31, 2015 and 2014, respectively. Our effective tax rate was impacted by the mix of income by jurisdiction, non-deductible stock-based compensation and increases of uncertain tax positions identified during the fiscal year ended March 31, 2015. Increases in our effective tax rate or a high effective tax rate will also have a negative effect on our earnings in future periods.
- *Onsite-to-offshore mix* is the measurement of hours billed by resources located offshore to hours billed by our team members onsite over a defined period. We strive to manage both fixed-price contracts and time-and-materials engagements to a targeted 25% to 75% onsite-to-offshore service delivery team mix, although such delivery mix may be impacted by several factors including our new and existing client delivery requirements as well as the impact of any acquisitions.

## Sources of revenue

We generate revenue by providing IT services to our clients located primarily in North America and Europe. We have historically earned, and believe that over the next few fiscal years we will continue to earn a significant portion of our revenue from a limited number of clients. For the fiscal year ended March 31, 2015, collectively, our five largest and ten largest clients accounted for 40% and 52% of our revenue, respectively. Our two largest clients accounted for 12% and 11% respectively, of our revenue for the fiscal year ended March 31, 2015. The loss of any one of our major clients could reduce our revenue and operating profit and harm our reputation in the industry. During the fiscal year ended March 31, 2015, 67% of our revenue was generated in North America, 27% in Europe and 6% in rest of the world. We provide IT services on either a time-and-materials or a fixed-price basis. For the fiscal year ended March 31, 2015, the percentage of revenue from time-and-materials and fixed-price contracts was 63% and 37%, respectively.

Revenue from services provided on a time-and-materials basis is derived from the number of billable hours in a period multiplied by the contractual rates at which we bill our clients. Revenue from services provided on a fixed-price basis is recognized as efforts are expended pursuant to the percentage-of-completion method. Revenue also includes reimbursements of travel and out-of-pocket expenses with equivalent amounts of expense recorded in costs of revenue. Most of our client contracts, including those that are on a fixed-price basis, can be terminated by our clients with or without cause on 30 to 90 days prior written notice. All fees for services provided by us through the date of cancellation are generally due and payable under the contract terms.

Our unit pricing is driven by business need, delivery timeframes, complexity of the engagement, operating differences (such as onsite/offshore ratio), competitive environment and engagement size or volume. As a pricing strategy to encourage clients to increase the volume of services that we provide to them, we, on occasion may offer volume discounts or longer payment terms. We manage our business carefully to protect our account margins and our overall profit margins. We find that our clients generally purchase on the basis of total value, rather than on minimum cost, considering all of the factors listed above.

While we are subject to the effects of overall market pricing pressure, we believe that there is a fairly broad range of pricing offered by different competitors for each service we provide. We believe that no one competitor, or set of competitors, sets pricing in our industry. We find that our unit pricing, as a result of our global delivery model, is generally competitive with other firms who operate with a predominately offshore operating model.

The proportion of work performed at our offshore facilities and at onsite client locations varies from period-to-period. Effort, in terms of the percentage of hours billed to clients by onsite resources, was 20% and 21% of total hours billed in each of the fiscal years ended March 31, 2015 and 2014, respectively, while the revenue from resources located onsite and offshore accounted for 54% and 46% respectively in the fiscal year ended March 31, 2015, and 53% and 47% respectively during the fiscal year ended March 31, 2014. We charge higher rates and incur higher compensation costs and other expenses for work performed at client locations in the United States, the United Kingdom and Europe as compared to work performed at our global delivery centers in Asia, particularly our largest centers in India and Sri Lanka. Services performed at client locations or at our offices in the United States or the United Kingdom generate higher revenue per-capita at lower gross margins than similar services performed at our global delivery centers in Asia, particularly our largest centers in India and Sri Lanka. We manage to a targeted 25% to 75% onsite-to-offshore service delivery mix, although such delivery mix may be impacted by several factors including our new and existing client delivery requirements as well as the impact of any acquisitions.

### **Costs of revenue and gross profit**

Costs of revenue consist principally of payroll and related fringe benefits, reimbursable and non-reimbursable costs, immigration-related expenses, fees for subcontractors working on client engagements and share-based compensation expense for IT professionals including account management personnel. Wage costs in India and Sri Lanka have historically been significantly lower than wage costs in the United States and Europe for comparably-skilled IT professionals. However, wages in India and Sri Lanka are increasing in local currency, which will result in increased costs for IT professionals, particularly project managers and other mid-level professionals. We may need to increase the levels of our team member compensation more rapidly than in the past to remain competitive without the ability to make corresponding increases to our billing rates. Compensation increases may reduce our profit margins, make us less competitive in pricing potential projects against those companies with lower cost resources and otherwise harm our business, operating results and financial condition. We deploy a campus hiring philosophy and encourage internal promotions to minimize the effects of wage inflation pressure and recruiting costs. Additionally, any material appreciation in the Indian rupee or Sri Lankan rupee against the U.S. dollar or U.K. pound sterling could have a material adverse impact on our cost of services.

Our revenue and gross profit are also affected by our ability to efficiently manage and utilize our IT professionals and fluctuations in foreign currency exchange rates. We define utilization rate as the total number of days billed in a given period divided by the total available days of our IT professionals during that same period, excluding trainees. We manage employee utilization by continually monitoring project requirements and timetables to efficiently staff our projects and meet our clients' needs. The number of IT professionals assigned to a project will vary according to the size, complexity, duration and demands of the project. An unanticipated termination or reduction of a significant project could cause us to experience a higher than expected number of unassigned IT professionals, thereby lowering our utilization rate.

Although we have adopted a twelve quarter cash flow hedging program to minimize the effect of the Indian rupee movement on our financial condition, particularly our costs of revenue, these hedges may not be effective or may cause us to forego benefits, especially given the volatility of these currencies. In addition, to the extent that these hedges do not qualify for hedge accounting, we may have to recognize gains or losses on the aggregate amount of hedges remaining outstanding as of the balance sheet date.

### **Operating expenses**

Operating expenses consist primarily of payroll and related fringe benefits, commissions, selling, share-based compensation and non-reimbursable costs, as well as promotion, communications, management, finance, administrative, occupancy, marketing and depreciation and amortization expenses. In the fiscal years ended March 31, 2015, 2014, and 2013, we invested in all aspects of our business, including sales, marketing, IT infrastructure, facilities, human resources programs and financial operations. Additionally, any material appreciation in the Indian rupee or Sri Lankan rupee against the U.S. dollar or U.K. pound sterling could have a material adverse impact on our cost of operating expenses.

### **Other income (expense)**

Other income (expense) includes interest income, interest expense, investment gains and losses, foreign currency transaction gains and losses and disposal of fixed assets. We generate interest income by investing in time deposits, money market instruments, short-term investments and long-term investments. The functional currencies of our subsidiaries are their local currencies, except for Hungary which operates in the euro. Foreign currency gains and losses are generated primarily by fluctuations of the Indian rupee, Sri Lankan rupee, Swedish Krona ("SEK"), euro and U.K. pound sterling against the U.S. dollar on intercompany transactions. We place our cash in liquid investments at highly-rated financial institutions based on our investment policy approved by our audit committee and board of directors. We believe that our credit policies reflect normal industry terms and business risk.

### **Income tax expense**

Our net income is subject to income tax in those countries in which we perform services and have operations, including the United States, the United Kingdom, the Netherlands, India, Sri Lanka, Germany, Singapore, Austria, Hungary, Malaysia and Sweden. In the fiscal year ended March 31, 2015, our effective tax rate was impacted by the mix of income by jurisdiction and availability and term of certain tax holidays identified during the fiscal year ended March 31, 2015. Historically, we have benefited from long-term income tax holiday arrangements in both India and Sri Lanka that are offered to certain export-oriented IT services firms. As a result of these tax holiday arrangements, our worldwide profit has been subject to a relatively low effective tax rate as compared to the statutory rates in the countries in which we operate. The effect of the income tax holidays in India and Sri Lanka decreased our income tax expense in the fiscal years ended March 31, 2015 and 2014 by \$5.0 million and \$4.5 million, respectively. However, our tax expense increased by \$3.4 million in the fiscal year ended March 31, 2015 compared to our tax expense for our fiscal year ended March 31, 2014 due to the increase in income from operations in high tax jurisdictions, increased nondeductible stock-based compensation, partially offset by statutory rate changes

and other discrete adjustments. Increases in our effective tax rate, or a high effective tax rate, has a negative effect on our earnings in future periods.

Our effective tax rate was 26.1% and 25.1% for each of the fiscal years ended March 31, 2015 and 2014 respectively. Our effective tax rate in future periods will be affected by the geographic distribution of our earnings, as well as the availability of tax holidays in India, Sri Lanka and Malaysia. We expect our effective tax rate to increase as a result of a higher tax rate in India and geographical mix of our profits.

#### **Application of critical accounting estimates and risks**

Our consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP. Preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of revenue and expenses, assets and liabilities and the disclosure of contingent assets and liabilities. We consider an accounting estimate to be critical to the preparation of our consolidated financial statements when both of the following are present:

- the estimate is complex in nature or requires a high degree of judgment; and
- the use of different estimates and assumptions could have a material impact on the consolidated financial statements.

We have discussed the development and selection of our critical accounting estimates and related disclosures with the audit committee of our board of directors. Those estimates critical to the preparation of our consolidated financial statements are listed below.

#### **Revenue recognition**

Our revenue is derived from a variety of IT consulting, technology implementation and application outsourcing services. Our services are performed under both time-and-material and fixed-price arrangements. All revenue is recognized pursuant to U.S. GAAP. Revenue is recognized as work is performed and amounts are earned. We consider amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable and collectability is reasonably assured. For contracts with fees billed on a time-and-materials basis, we generally recognize revenue as the service is performed.

Fixed-price engagements are accounted for under the percentage-of-completion method. Under the percentage-of-completion method, we estimate the percentage-of-completion based upon efforts incurred to date to the estimated total efforts required to complete each engagement. The use of the percentage-of-completion method requires significant judgment relative to estimating total contract revenue and costs to completion, including assumptions and estimates relative to the length of time to complete the project, the nature and complexity of the work to be performed and anticipated changes in other engagement-related costs. Our analysis of these contracts also contemplates whether contracts should be combined or segmented. We combine closely related contracts when all the applicable criteria under U.S. GAAP are met. Similarly, we may segment a project, which may consist of a single contract or a group of contracts, with varying rates of profitability, only if all the applicable criteria under U.S. GAAP are met. Estimates of total contract revenue and costs to completion are continually monitored during the term of the contract and are subject to revision as the contract progresses. Unforeseen circumstances may arise during an engagement requiring us to revise our original estimates and may cause the estimated profitability to decrease. When revisions in estimated contract revenue and efforts are determined, such adjustments are recorded in the period in which they are first identified.

#### **Valuation and impairment of investments and/or marketable securities**

We classify our marketable securities as available-for-sale or trading securities, and carry them at fair market value. Changes in fair value subsequent to the balance sheet date are recorded in the period in

which they occur. The difference between amortized cost and fair market value, net of tax effect, for available-for-sale securities is recorded as a separate component of stockholders' equity. The difference between amortized cost and fair market value for trading securities is reflected in "other income, net" on our consolidated statements of income. Investments and/or marketable securities classified as available-for-sale are considered to be impaired when a decline in fair value below cost basis is determined to be other than temporary. We conduct a periodic review and evaluation of our investment securities to determine if the decline in fair value of any security is deemed to be other-than-temporary. Other-than-temporary impairment losses are recognized on securities when: (i) the holder has an intention to sell the security; (ii) it is more likely than not that the security will be required to be sold prior to recovery; or (iii) the holder does not expect to recover the entire amortized cost basis of the security. Other-than-temporary losses are reflected in earnings as a charge against gain on sale of investments to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. We have no intention to sell any securities in an unrealized loss position at March 31, 2015 nor is it more likely than not that we would be required to sell such securities prior to the recovery of the unrealized losses and we expect to recover the entire amortization cost basis of the security. At March 31, 2015, we believe that all impairments of investment securities are temporary in nature.

#### **Derivative instruments and hedging activities**

We enter into forward foreign exchange contracts to mitigate the risk of changes in foreign exchange rates on intercompany transactions and forecasted transactions denominated in foreign currencies. Certain of these transactions meet the criteria for hedge accounting as cash flow hedges under accounting standards codification. Changes in the fair values of these hedges are deferred and recorded as a component of accumulated other comprehensive income (loss), net of tax, until the hedged transactions occur and are then recognized in the consolidated statements of income in the same line item as the item being hedged. The Company measures the effectiveness of these hedges at the time of inception, as well as on an ongoing basis. If any portion of the hedges is deemed ineffective, the respective portion is recorded in the consolidated statement of income in other income (expense). At maturity changes in the fair value for other derivative contracts, if any, are recognized in the same line item as the underlying exposure being hedged in the statements of income. We value our derivatives based on market observable inputs including both forward and spot prices for currencies. Any significant change in the forward or spot prices for currencies would have a significant impact on the value of our derivatives.

#### **Goodwill and other intangible assets**

We account for our business combinations under the acquisition method of accounting. We allocate the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price for acquisitions over the fair value of the net assets acquired, including other intangible assets, is recorded as goodwill. Goodwill is not amortized but is tested for impairment at the reporting unit level, defined at the Company level, at least annually in the fourth quarter of each fiscal year or more frequently when events or circumstances occur that indicate that it is more likely than not that an impairment has occurred. In assessing goodwill for impairment, an entity has the option to assess qualitative factors to determine whether events or circumstances indicate that it is not more likely than not that fair value of a reporting unit is less than its carry amount. If this is the case, then performing the quantitative two-step goodwill impairment test is unnecessary. An entity can choose not to perform a qualitative assessment for any or all of its reporting units, and proceed directly to the use of the two-step impairment test. The two-step process begins with an estimation of the fair value of a reporting unit. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value. Significant judgment is applied when goodwill is assessed for impairment.

For our goodwill impairment analysis, we operate under one reporting unit. Any impairment would be measured based upon the fair value of the related assets. In performing the first step of the goodwill impairment testing and measurement process, we compare our entity-wide estimated fair value to net book value to identify potential impairment. Management estimates the entity-wide fair value utilizing our market capitalization, plus an appropriate control premium. Market capitalization is determined by multiplying the shares outstanding on the assessment date by the market price of our common stock. If the market capitalization is not sufficiently in excess of our book value, we will calculate the control premium which considers appropriate industry, market and other pertinent factors. If the fair value of the reporting unit is less than the book value, the second step is performed to determine if goodwill is impaired. If we determine through the impairment evaluation process that goodwill has been impaired, an impairment charge would be recorded in the consolidated statement of income. We completed the annual impairment test required during the fourth quarter of the fiscal year ended March 31, 2015 and determined that there was no impairment. We continue to closely monitor our market capitalization. If our market capitalization, plus an estimated control premium, is below its carrying value for a period considered to be other-than-temporary, it is possible that we may be required to record an impairment of goodwill either as a result of the annual assessment that we conduct in the fourth quarter of each fiscal year, or in a future quarter if an indication of potential impairment is evident. The estimated fair value of the reporting unit on the assessment date significantly exceeded the carrying book value.

Other intangible assets acquired in a business combination are recognized at fair value using generally accepted valuation methods appropriate for the type of intangible asset and reported separately from goodwill. Intangible assets with definite lives are amortized over the estimated useful lives and tested for impairment when events or circumstances occur that indicate that it is more likely than not that an impairment has occurred. We test other intangible assets with definite lives for impairment by comparing the carrying amount to the sum of the net undiscounted cash flows expected to be generated by the asset whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount of the asset exceeds its net undiscounted cash flows, then an impairment loss is recognized for the amount by which the carrying amount exceeds its fair value.

### **Income taxes**

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations in multiple jurisdictions where the Company has operations. We record liabilities for estimated tax obligations in the United States and other tax jurisdictions. Determining the consolidated provision for income tax expense, tax reserves, deferred tax assets and liabilities and related valuation allowance, if any, involves judgment. We calculate and provide for income taxes in each of the jurisdictions in which we operate, including the United States, the United Kingdom, India, Sri Lanka, the Netherlands, Germany, Singapore, Sweden and Hungary, and these calculations and determinations can involve complex issues which require an extended period of time to resolve. In the fiscal year of any such resolution, additional adjustments may need to be recorded that result in increases or decreases to income. Our overall effective tax rate fluctuates due to a variety of factors, including arm's-length prices for our intercompany transactions, changes in the geographic mix or estimated level of annual pretax income, as well as newly enacted tax legislation in each of the jurisdictions in which we operate. Applicable transfer pricing regulations require that transactions between and among our subsidiaries be conducted at an arm's-length price. On an ongoing basis, we estimate appropriate arm's-length prices and use such estimates for our intercompany transactions.

At each financial statement date, we evaluate whether a valuation allowance is needed to reduce our deferred tax assets to the amount that is more likely than not to be realized. This evaluation considers the weight of all available evidence, including both future taxable income and ongoing prudent and feasible tax planning strategies. In the event that we determine that we will not be able to realize a recognized deferred tax asset in the future, an adjustment to the valuation allowance would be made, resulting in a decrease in

income (or equity in the case of excess stock option tax benefits) in the period such determination was made. Likewise, should we determine that we will be able to realize all or part of an unrecognized deferred tax asset in the future, an adjustment to the valuation allowance would be made, resulting in an increase to income (or equity in the case of excess stock option tax benefits).

We have benefited from long-term income tax holiday arrangements in both India and Sri Lanka. We have located new development centers in areas designated as Special Economic Zones (“SEZ”) to secure tax exemptions for these operations for a period of ten years, which could extend to 15 years if we meet certain reinvestment requirements. During the fiscal year ending March 31, 2013, we elected the tax holiday for our SEZ Co-developer located in Hyderabad, India for a period of 10 years. Our India profits ineligible for SEZ benefits are subject to corporate income tax at the current rate of 33.99%. Our Sri Lanka subsidiary has been granted an income tax holiday by the Sri Lanka Board of Investment (“BOI”) which expires on March 31, 2019. The tax holiday is contingent upon a certain level of job creation by us during a given timetable. Although we believe we have met the job creation requirements, if the BOI concludes otherwise, this would jeopardize the maximum benefits from this holiday arrangement. Primarily as a result of these tax holiday arrangements, our worldwide profit has been subject to a relatively low effective tax rate, and the loss of any of these arrangements would increase our overall effective tax rate and reduce our net income.

It is our intent to reinvest all accumulated earnings from foreign operations back into their respective businesses to fund growth. As a component of this strategy, we do not accrue incremental U.S. taxes on foreign earnings as these earnings are considered to be indefinitely reinvested outside of the United States. If such earnings were to be repatriated in the future or are no longer deemed to be indefinitely reinvested, we will accrue the applicable amount of taxes associated with such earnings, which would increase our overall effective tax rate.

#### **Share-based compensation**

Under the fair value recognition provisions of accounting standards, share-based compensation cost is measured at the grant date based on the value of the award and is recognized over the vesting period. Determining the fair value of the share-based awards at the grant date requires judgment, including estimating the expected term over which stock options will be outstanding before they are exercised, the expected volatility of our stock and the number of share-based awards that are expected to be forfeited. If actual results differ significantly from our estimates, share-based compensation expense and our results of operations could be materially impacted.

The risk-free interest rate assumptions are based on the interpolation of various U.S. Treasury bill rates in effect during the month in which stock option awards are granted. Our volatility assumption is based on the historical volatility rates of the common stock of our publicly held peers over periods commensurate with the expected term of each grant.

The expected term of employee share-based awards represents the weighted average period of time that awards are expected to remain outstanding. The expected term of our options is based on historical employee exercise patterns.

## Results of operations

### Fiscal year ended March 31, 2015 compared to fiscal year ended March 31, 2014

The following table presents an overview of our results of operations for the fiscal years ended March 31, 2015 and 2014:

	Fiscal Year Ended March 31,		\$ Change	% Change
	2015	2014		
	(Dollars in thousands)			
Revenue . . . . .	\$478,986	\$396,933	\$82,053	20.7%
Costs of revenue . . . . .	304,422	250,533	53,889	21.5%
Gross profit . . . . .	174,564	146,400	28,164	19.2%
Operating expenses . . . . .	121,996	103,988	18,008	17.3%
Income from operations . . . . .	52,568	42,412	10,156	23.9%
Other income . . . . .	4,832	3,512	1,320	37.6%
Income before income tax expense .	57,400	45,924	11,476	25.0%
Income tax expense . . . . .	14,954	11,549	3,405	29.5%
Net income . . . . .	\$ 42,446	\$ 34,375	\$ 8,071	23.5%

#### Revenue

Revenue increased by 20.7%, or \$82.1 million, from \$396.9 million during the fiscal year ended March 31, 2014 to \$479.0 million in the fiscal year ended March 31, 2015, due primarily to broad based growth, particularly our non-top ten clients, and revenue from the TradeTech and OSB acquisitions of \$20.5 million. Revenue from clients existing as of March 31, 2014, increased by \$47.5 million, and revenue from new clients was \$34.6 million during the fiscal year ended March 31, 2015, as compared to the fiscal year ended March 31, 2014. Revenue from North American clients increased by \$41.0 million, or 14.7%, as compared to the fiscal year ended March 31, 2014. Revenue from European clients in the fiscal year ended March 31, 2015 increased by \$32.7 million, or 33.7%, as compared to the fiscal year ended March 31, 2014. Revenue growth was led by C&T and BFSI industry groups, which increased by 32% and 19% respectively, in the fiscal year ended March 31, 2015 as compared to the fiscal year ended March 31, 2014. Our number of clients increased from 104 at March 31, 2014 to 114 at March 31, 2015.

#### Costs of revenue

Costs of revenue increased from \$250.5 million in the fiscal year ended March 31, 2014 to \$304.4 million in the fiscal year ended March 31, 2015, an increase of \$53.9 million, or 21.5%, which includes a foreign currency benefit of \$5.0 million due to the depreciation of the Indian rupee. The increase in cost of revenue was primarily due to an increase in the number of IT professionals and related compensation and benefit costs of \$35.6 million. The increased costs of revenue are also due to increase in subcontractor costs of \$13.5 million, and an increase of \$4.3 million in travel expenses. At March 31, 2015, we had 8,229 IT professionals as compared to 7,192 at March 31, 2014.

#### Gross profit

Our gross profit increased by \$28.2 million or 19.2%, to \$174.6 million for the fiscal year ended March 31, 2015 as compared to \$146.4 million in the fiscal year ended March 31, 2014 primarily due to our growth in revenue, partially offset by increased cost of revenue related to the growth in the number of IT professionals and use of subcontractors. As a percentage of revenue, our gross margin was 36.4% and 36.9% in the fiscal years ended March 31, 2015 and 2014, respectively.

***Operating expenses***

Operating expenses increased from \$104.0 million in the fiscal year ended March 31, 2014 to \$122.0 million in the fiscal year ended March 31, 2015, an increase of \$18.0 million, which includes a foreign currency benefit of \$2.5 million due to the depreciation of the Indian rupee. The increase in operating expenses was primarily due to an increase of \$12.2 million in compensation related expenses, \$4.3 million in facilities expenses, an increase of \$1.0 million in travel expenses, an increase of \$1.4 million in professional services, partially offset by decrease in bad debt expense of \$0.9 million. As a percentage of revenue, our operating expenses decreased from 26.2% in the fiscal year ended March 31, 2014 to 25.5% in the fiscal year ended March 31, 2015.

***Income from operations***

Income from operations increased from \$42.4 million in the fiscal year ended March 31, 2014 to \$52.6 million in the fiscal year ended March 31, 2015, an increase of \$10.2 million or 23.9%. This increase in income from operations resulted primarily from higher gross profit and our operating expenses being allocated over a larger revenue base. As a percentage of revenue, income from operations increased from 10.7% in the fiscal year ended March 31, 2014 to 11.0% in the fiscal year ended March 31, 2015.

***Other income***

Other income increased from \$3.5 million in the fiscal year ended March 31, 2014 to \$4.8 million in the fiscal year ended March 31, 2015. The increase is primarily attributed to an increase in interest income of \$1.5 million reflecting larger cash and investment balances.

***Income tax expense***

We had income tax expense of \$15.0 million and \$11.5 million for the fiscal years ended March 31, 2015 and 2014, respectively. Our effective tax rate was 26.1% and 25.1% for the fiscal years ended March 31, 2015 and 2014, respectively. The increase in the effective tax rate was primarily driven by geographical mix of operating profits and non-deductible stock-based compensation.

***Net income***

Net income for the fiscal year ended March 31, 2015 was \$42.4 million, an increase of 23.5% or \$8.0 million compared to net income of \$34.4 million for the fiscal year ended March 31, 2014 due in part to higher revenue partially offset by higher cost of revenue and increased operating expenses, which were leveraged over a larger revenue base.

### Fiscal year ended March 31, 2014 compared to fiscal year ended March 31, 2013

The following table presents an overview of our results of operations for the fiscal years ended March 31, 2014 and 2013:

	Fiscal Year Ended March 31,		\$ Change	% Change
	2014	2013		
		(Dollars in thousands)		
Revenue . . . . .	\$396,933	\$333,175	\$63,758	19.1%
Costs of revenue . . . . .	250,533	215,866	34,667	16.1%
Gross profit . . . . .	146,400	117,309	29,091	24.8%
Operating expenses . . . . .	103,988	84,450	19,538	23.1%
Income from operations . . . . .	42,412	32,859	9,553	29.1%
Other income . . . . .	3,512	3,000	512	17.1%
Income before income tax expense . . . .	45,924	35,859	10,065	28.1%
Income tax expense . . . . .	11,549	7,461	4,088	54.8%
Net income . . . . .	\$ 34,375	\$ 28,398	\$ 5,977	21.0%

#### Revenue

Revenue increased by 19.1%, or \$63.7 million, from \$333.2 million during the fiscal year ended March 31, 2013 to \$396.9 million in the fiscal year ended March 31, 2014, due primarily to broad based growth in all of our clients, particularly our non-top ten clients, and revenue from the TradeTech and OSB acquisitions. Revenue from clients existing as of March 31, 2013, increased by \$35.2 million, and revenue from new clients was \$28.5 million during the fiscal year ended March 31, 2014, as compared to the fiscal year ended March 31, 2013. Revenue from North American clients increased by \$27.1 million, or 10.8%, as compared to the fiscal year ended March 31, 2013. Revenue from European clients in the fiscal year ended March 31, 2014 increased by \$31.3 million, or 47.6%, as compared to the fiscal year ended March 31, 2013. Revenue growth was led by C&T and BFSI industry groups, which increased by 37% and 15% respectively, in the fiscal year ended March 31, 2014 as compared to the fiscal year ended March 31, 2013. Our number of clients increased from 92 at March 31, 2013 to 104 at March 31, 2014, including clients from our acquisition of TradeTech.

#### Costs of revenue

Costs of revenue increased from \$215.9 million in the fiscal year ended March 31, 2013 to \$250.5 million in the fiscal year ended March 31, 2014, an increase of \$34.6 million, or 16.1%, which includes a foreign currency benefit of \$6.8 million due to the depreciation of the Indian rupee. The increase in cost of revenue was primarily due to an increase in the number of IT professionals and related compensation and benefit costs of \$33.4 million. The increased costs of revenue are also due to increased recruiting expense of \$1.2 million, an increase of \$1.4 million in travel expenses, and an increase in client related infrastructure cost of \$0.9 million, partially offset by a decrease in subcontractor costs of \$2.4 million. At March 31, 2014, we had 7,192 IT professionals as compared to 6,336 at March 31, 2013.

#### Gross profit

Our gross profit increased by \$29.1 million or 24.8%, to \$146.4 million for the fiscal year ended March 31, 2014 as compared to \$117.3 million in the fiscal year ended March 31, 2013 primarily due to our growth in revenue, partially offset by increased cost of revenue related to the growth in the number of IT professionals. As a percentage of revenue, our gross margin was 36.9% and 35.2% in the fiscal years ended March 31, 2014 and 2013, respectively.

### ***Operating expenses***

Operating expenses increased from \$84.4 million in the fiscal year ended March 31, 2013 to \$104.0 million in the fiscal year ended March 31, 2014, an increase of \$19.6 million, which includes a foreign currency benefit of \$3.8 million due to the depreciation of the Indian rupee. The increase in operating expenses was primarily due to an increase of \$9.0 million in compensation related expenses, \$4.9 million in facilities expenses, an increase of \$1.4 million in travel expenses, an increase of \$2.6 million in professional services and an increase in bad debt expense of \$0.6 million. As a percentage of revenue, our operating expenses increased from 25.3% in the fiscal year ended March 31, 2013 to 26.2% in the fiscal year ended March 31, 2014.

### ***Income from operations***

Income from operations increased from \$32.9 million in the fiscal year ended March 31, 2013 to \$42.4 million in the fiscal year ended March 31, 2014, an increase of \$9.5 million or 29.1%. This increase in income from operations resulted primarily from higher gross profit and our operating expenses being allocated over a larger revenue base. As a percentage of revenue, income from operations increased from 9.9% in the fiscal year ended March 31, 2013 to 10.7% in the fiscal year ended March 31, 2014.

### ***Other income***

Other income increased from \$3.0 million in the fiscal year ended March 31, 2013 to \$3.5 million in the fiscal year ended March 31, 2014. The increase is primarily attributed to an increase in interest income of \$0.8 million reflecting larger cash balances, partially offset by an increase in foreign currency losses by \$0.3 million.

### ***Income tax expense***

We had income tax expense of \$11.5 million and \$7.5 million for the fiscal years ended March 31, 2014 and 2013, respectively. Our effective tax rate was 25.1% and 20.8% for the fiscal years ended March 31, 2014 and 2013, respectively. The increase in the effective tax rate was primarily driven by geographical mix of operating profits, partial expiration of certain special economic zone (“SEZ”) benefits in India partly offset by a discrete tax benefit in the United Kingdom recognized in the fiscal year ended March 31, 2014.

### ***Net income***

Net income for the fiscal year ended March 31, 2014 was \$34.4 million, an increase of 21.0% or \$6.0 million compared to net income of \$28.4 million for the fiscal year ended March 31, 2013 due in part to higher revenue partially offset by higher cost of revenue and increased operating expenses, which were leveraged over a larger revenue base.

### **Non-GAAP Financial Measures**

We include certain non-GAAP financial metrics as defined by Regulation G by the Securities and Exchange Commission. These non-GAAP financial metrics are not based on any comprehensive set of accounting rules or principles and should not be considered a substitute for, or superior to, financial metrics calculated in accordance with GAAP, and may be different from non-GAAP metrics used by other companies. In addition, these non-GAAP metrics should be read in conjunction with our financial statements prepared in accordance with GAAP.

We believe the following financial metrics will provide additional insights to measure the operational performance of our business.

- We present the following consolidated statement of income metrics that exclude acquisition-related charges, stock-based compensation expense and foreign currency transaction gains and losses to

provide further insights into the comparison of our operating results among the periods, as well as enhancing comparability with the operating results of peer companies:

- Non-GAAP income from operations: income from operations, as reported on our consolidated statements of income, excluding stock-based compensation expense and acquisition-related charges
- Non-GAAP operating margin: non-GAAP income from operations as a percentage of reported revenues
- Non-GAAP net income: net income, as reported on our consolidated statements of income, excluding the tax adjusted impact of the following: stock-based compensation, acquisition-related charges and foreign currency transaction gains and losses
- Non-GAAP diluted earnings per share: diluted earnings per share, as reported on our consolidated statements of income, excluding tax adjusted per share impact of the following: stock-based compensation, acquisition-related charges and foreign currency transaction gains and losses

The following table presents a reconciliation of each non-GAAP financial metric to the most comparable GAAP metric for the years ended March 31:

	Fiscal Year Ended March 31,	
	2015	2014
	(in thousands, except per share amounts)	
GAAP income from operation . . . . .	\$52,568	\$42,412
Add: Stock-based compensation expense . . . . .	11,098	8,166
Add: Acquisition-related charges(1) . . . . .	4,674	4,275
Non-GAAP income from operations . . . . .	<u>\$68,340</u>	<u>\$54,853</u>
GAAP operating margin . . . . .	11.0%	10.7%
Effect of above adjustments to income from operations . . . . .	<u>3.3%</u>	<u>3.1%</u>
Non-GAAP operating margin . . . . .	<u>14.3%</u>	<u>13.8%</u>
GAAP net income . . . . .	\$42,446	\$34,375
Add: Stock-based compensation expense . . . . .	11,098	8,166
Add: Acquisition-related charges(1) . . . . .	4,674	4,275
Add: Foreign currency transaction (gains) losses(2) . . . . .	357	396
Tax adjustments(3) . . . . .	<u>(4,202)</u>	<u>(3,228)</u>
Non-GAAP net income . . . . .	<u>\$54,373</u>	<u>\$43,984</u>
GAAP diluted earnings per share . . . . .	\$ 1.44	\$ 1.27
Effect of stock-based compensation expense . . . . .	0.28	0.23
Effect of acquisition-related charges(1) . . . . .	0.12	0.12
Effect of foreign currency transaction (gains) losses(2) . . . . .	<u>0.00</u>	<u>0.01</u>
Non-GAAP diluted earnings per share . . . . .	<u>\$ 1.84</u>	<u>\$ 1.63</u>

- (1) Acquisition-related charges include, when applicable, amortization of purchased intangibles, external deal costs, acquisition-related retention bonuses, changes in the fair value of contingent consideration liabilities, charges for impairment of acquired intangible assets and other acquisition-related costs.

- (2) Foreign currency transaction gains and losses are inclusive of gains and losses on related foreign exchange forward contracts not designated as hedging instruments for accounting purposes.
- (3) Tax adjustments reflect the tax effect of the non-GAAP adjustments using the effective tax rate for the respective periods.

### **Liquidity and capital resources**

We have financed our operations primarily from sales of shares of common stock and from cash from operations. For instance, on January 14, 2014, we completed an underwritten public offering of 2,645,000 shares of our common stock for net proceeds of approximately \$86.2 million after deducting commissions and transaction expenses and after giving effect to the reimbursement of certain transactional expenses for which the underwriters have agreed to reimburse us.

On April 1, 2015, we entered into a Stock Purchase Agreement (the “Stock Purchase Agreement”) by and among Virtusa, Apparatus, Inc. an Indiana corporation (“Apparatus”), the majority stock holder of Apparatus (“Major Stockholder”) and the other stockholders (collectively with the Major Stockholder, the “Sellers”), to acquire all of the issued and outstanding stock of Apparatus (the “Acquisition”). We also completed the Acquisition on April 1, 2015, and Apparatus is now a wholly-owned subsidiary of the Company.

Under the terms of the Stock Purchase Agreement, the purchase price for the Acquisition was approximately \$34,200 in cash, subject to post-closing working capital adjustments. The purchase price is also subject to adjustment after the closing by up to an additional \$1,700 in earn-out consideration to the Sellers, and an additional payment of approximately \$1,500 (“Bonus Pool”) in the form of variable cash compensation to certain Apparatus employees, in each case, in the event of Apparatus’ achievement at 100% of certain revenue and profit milestones for the fiscal year ending March 31, 2016. We deposited 8.5% of the purchase price into escrow for a period of 12 months as security for the Sellers’ indemnification obligations under the Stock Purchase Agreement. Virtusa, Sellers and Apparatus made customary representations, warranties and covenants in the Stock Purchase Agreement. The Stock Purchase Agreement also contains non-solicitation and non-competition provisions pursuant to which the Sellers agreed not to solicit any employee or affiliate or client of the Virtusa and, in the case of the Major Stockholder, to also not engage in any competitive business or activities, in each case, for a period of three years after the date of closing of the transaction.

In connection with the Acquisition, we offered employment to all of Apparatus’ employees. In addition to the Bonus Pool, we also agreed to issue an aggregate of up to \$3,500 in shares of restricted stock from our 2007 Plan, not to exceed 93,333 shares, to certain Apparatus employees. The shares will vest annually over a four year period.

On December 31, 2013, we entered into an amended and restated credit agreement with JPM expiring December 31, 2018. The credit agreement amends and restates our \$3.0 million secured revolving credit agreement with JPM and provides for a \$25 million secured revolving credit facility, which shall be available to fund working capital and other corporate purposes, as well as to serve as security in support of our foreign currency hedging programs. The credit agreement contains financial and reporting covenants and limitations. We are in compliance with all covenants under this credit agreement. On January 14, 2014, we repaid the \$20.0 million in outstanding borrowings from the proceeds of our underwritten public offering. At March 31, 2015, there were no borrowings outstanding under the credit facility.

At March 31, 2015, we had approximately \$235.9 million of cash, cash equivalents, short term investments and long term investments, of which we hold approximately \$99.2 million of cash, cash equivalents, and short term investments in non-U.S. locations, particularly in India, Sri Lanka and the United Kingdom. Cash in these non-U.S. locations may not otherwise be available for potential

investments or operations in the United States or certain other geographies where needed, as we have stated that this cash is indefinitely reinvested in these non-U.S. locations. We do not currently plan to repatriate this cash to the United States. However, if our intent were to change and we elected to repatriate this cash back to the United States, or this cash was deemed no longer permanently invested, this cash would be subject to substantial taxes and the change in such intent could have a material adverse effect on our cash balances as well as our overall statement of income. Due to various methods by which cash could be repatriated to the United States in the future, the amount of taxes attributable to the cash is dependent on circumstances existing if and when remittance occurs. We estimate that it could cost us as much as \$31.3 million to repatriate cash back to the United States. In addition, some countries could have tight restrictions on the movement and exchange of foreign currencies which could further limit our ability to use such funds for global operations or capital or other strategic investments.

Beginning in fiscal 2009, our U.K. subsidiary entered into an agreement with an unrelated financial institution to sell, without recourse, certain of its European-based accounts receivable balances from one client to such financial institution. During the fiscal year ended March 31, 2015, we sold \$28.3 million of receivables under the terms of the financing agreement. Fees paid pursuant to this agreement were immaterial during the fiscal year ended March 31, 2015. We may elect to use this program again in future periods. However, we cannot provide any assurance that this or any other financing facilities will be available or utilized in the future.

We expect capital expenditures made in the normal course of business during the fiscal year ended March 31, 2016, without regarding to any past or future acquisitions, to be consistent with our historical capital expenditures.

## Cash flows

The following table summarizes our cash flows for the periods presented:

	Fiscal Year Ended March 31,		
	2015	2014	2013
	(In thousands)		
Net cash provided by operating activities . . . . .	\$ 48,917	\$ 48,919	\$ 22,753
Net cash used for investing activities . . . . .	(10,077)	(113,044)	(23,705)
Net cash provided by financing activities . . . . .	5,225	91,740	494
Effect of exchange rates on cash . . . . .	(2,024)	(2,053)	(448)
Net increase (decrease) in cash and cash equivalents . . . . .	42,041	25,562	(906)
Cash and cash equivalents, beginning of fiscal year	82,761	57,199	58,105
Cash and cash equivalents, end of fiscal year . . . . .	\$124,802	\$ 82,761	\$ 57,199

### *Net cash provided by operating activities*

Net cash provided by operating activities was \$48.9 million during the fiscal years ended March 31, 2015 and 2014. During the fiscal year ended March 31, 2015, the primary drivers compared to the fiscal year ended March 31, 2014 were an increase in net income of \$8.1 million, primarily offset by a decrease of \$8.0 million in working capital.

Net cash provided by operating activities was \$48.9 million during the fiscal year ended March 31, 2014 as compared to \$22.8 million during the fiscal year ended March 31, 2013. This increase was primarily attributable to an increase in net income of \$6.0 million, an increased change in accounts receivable of \$16.6 million, an increased change in accrued employee compensation of \$5.9 million, an increased change in income tax payable \$3.3 million, an increased change in deferred income taxes of \$3.5 million, and an increase in depreciation, amortization and share based compensation of \$4.7 million. These were partially

offset by a decreased change in accrued liabilities of \$6.6 million, a decreased change in other long term assets and liabilities by \$2.0 million, an increase in excess tax benefits from stock option exercises of \$2.4 million, a decreased change in accounts payable of \$1.8 million, and a decreased change in prepaid expenses and other current assets of \$1.4 million.

***Net cash used for investing activities***

Net cash used for investing activities was \$10.1 million during the fiscal year ended March 31, 2015 as compared to \$113.0 million during the fiscal year ended March 31, 2014. The change was primarily due to net proceeds of investments of \$4.5 million during the fiscal year ended March 31, 2015 as compared to net purchases of investments of \$81.9 million for the fiscal year ended March 31, 2014, reflecting the investment of proceeds from our issuance of common stock during the fiscal year ended March 31, 2014. In addition, during the fiscal year ended March 31, 2015, there was a decrease in cash used for business acquisitions of \$18.8 million partially offset by an increase in cash used for the purchase of property and equipment of \$7.2 million.

Net cash used for investing activities was \$113.0 million during the fiscal year ended March 31, 2014 as compared to \$23.7 million during the fiscal year ended March 31, 2013. The change was primarily due to the net decreases in the proceeds of investments of \$70.9 million, an increase in restricted cash of \$4.9 million, the use of \$18.7 million in cash for the acquisition of TradeTech and OSB, partially offset by an increased change in purchase of property and equipment of \$5.1 million.

***Net cash provided by financing activities***

Net cash provided by financing activities was \$5.2 million during the fiscal year ended March 31, 2015, as compared to \$91.7 million during the fiscal year ended March 31, 2014. The decrease in cash provided by financing activities is primarily due to proceeds from issuance of common stock of \$86.2 million during the fiscal year ended March 31, 2014.

Net cash provided by financing activities was \$91.7 million during the fiscal year ended March 31, 2014, as compared to \$0.5 million during the fiscal year ended March 31, 2013. The increase in cash provided is primarily due to \$86.2 million proceeds received from our underwritten public offering of 2,645,000 shares of our common stock on January 14, 2014, an increase in excess tax benefits from stock option exercises of \$2.4 million, an increase in proceeds from the exercise of common stock options of \$0.4 million, an increased change due to a decrease in repurchase of shares of our common stock of \$1.4 million under our stock repurchase program and an increased change in principal payment of capital leases of \$1.0 million, partially offset by payment for debt issuance cost of \$0.2 million.

## Contractual obligations

We have no long term debt and have various contractual obligations and commercial commitments. The following table sets forth our future contractual obligations and commercial commitments at March 31, 2015.

	Payments Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	5+ Years
			(In thousands)		
Operating lease obligations(1) . . . . .	\$24,804	\$ 7,502	\$12,666	\$3,311	\$1,325
Capital lease obligations(2) . . . . .	303	118	173	12	—
Contingent Consideration(3) . . . . .	2,432	2,432	—	—	—
Defined benefit plans(4) . . . . .	11,332	775	1,487	2,268	6,802
Capital and other purchase commitments(5) . . . .	3,255	3,255	—	—	—
Total . . . . .	<u>\$42,126</u>	<u>\$14,082</u>	<u>\$14,326</u>	<u>\$5,591</u>	<u>\$8,127</u>

(1) Our obligations under our operating leases consist of future payments related to our real estate leases.

(2) Capital lease relates to purchase of vehicles.

(3) Relates to the OSB acquisitions

(4) We accrue and contribute to benefit funds covering our employees in India and Sri Lanka. The amounts in the table represent the expected benefits to be paid out over the next ten years. We are not able to quantify expected benefit payments beyond ten years with any certainty. We make periodic contributions to the plans such that the unfunded amounts are immaterial.

(5) Relates to build-out of various facilities in India, and other purchase commitments, net of advances.

As of March 31, 2015, we had \$0.5 million of unrecognized tax benefits. This represents the tax benefits associated with tax positions on our domestic and international tax returns that have not been recognized on our financial statements due to uncertainty regarding their resolution. Resolution of the related tax positions with the relevant tax authorities may take years to complete, since such timing is not entirely within our control. It is reasonably possible that within the next 12 months certain positions will be resolved, which could result in a decrease in unrecognized tax benefits. These decreases may be offset by increases to unrecognized tax benefits if new positions are identified. The resolution or settlement of positions with the relevant taxing authorities is at various stages and therefore it is not practical to estimate the eventual cash flows by period that may be required to settle these matters.

## Off-balance sheet arrangements

We do not have any investments in special purpose entities or undisclosed borrowings or debt.

We have entered into foreign currency derivative contracts with the objective of limiting our exposure to changes in the Indian rupee, the U.K. pound sterling, the euro and the Swedish Krona as described below and in “Quantitative and Qualitative Disclosures about Market Risk.”

We maintain a foreign currency cash flow hedging program designed to further mitigate the risks of volatility in the Indian rupee against the U.S. dollar and U.K. pound sterling as described below in “Quantitative and Qualitative Disclosures about Market Risk.” From time to time, we may also purchase multiple foreign currency forward contracts designed to hedge fluctuation in foreign currencies, such as the U.K. pound sterling, euro and Swedish Krona against the U.S. dollar, or the U.K. pound sterling against the Sri Lankan rupee, and other multiple foreign currency hedges designed to hedge foreign currency transaction gains and losses on our intercompany balances as well as to minimize the impact of foreign

currency fluctuations on foreign currency denominated revenue and expenses. Other than these foreign currency derivative contracts, we have not entered into off-balance sheet transactions, arrangements or other relationships with unconsolidated entities or other persons that are likely to affect liquidity or the availability of or requirements for capital resources.

#### **Recent accounting pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on April 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In June 2014, the FASB issued ASU No. 2014-12—“Stock Compensation—Accounting for Share-Based Payments In some cases, the terms of an award may provide that a performance target that affects vesting could be achieved after an employee completes the requisite service period. That is, the employee would be eligible to vest in the award regardless of whether the employee is rendering service on the date the performance target is achieved. A performance target that affects vesting and that could be achieved after an employee’s requisite service period shall be accounted for as a performance condition. As such, the performance target shall not be reflected in estimating the fair value of the award at the grant date. Compensation cost shall be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service already has been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost for which requisite service has not yet been rendered shall be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period shall reflect the number of awards that are expected to vest and shall be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. As indicated in the definition of vest, the stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period. The ASU is effective for annual and interim periods for fiscal years beginning on or after December 15, 2015. Entities can apply the amendment either a) prospectively to all awards granted or modified after the effective date or b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The ASU does not have an impact on the consolidated financial statements.

#### **Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.***

##### **Foreign currency exchange rate risk**

We are exposed to foreign currency exchange rate risk in the ordinary course of business. We have historically entered into, and in the future we may enter into, foreign currency derivative contracts to minimize the impact of foreign currency fluctuations on foreign currency denominated assets as well as revenue and forecasted expenses. Certain of these contracts meet the criteria for hedge accounting as cash flow hedges. We evaluate our foreign exchange policy on an ongoing basis to assess our ability to address foreign exchange exposures on our consolidated balance sheets, consolidated statements of income and operating cash flows from all foreign currencies, including most significantly the Indian rupee, the U.K. pound sterling, the euro and the Sri Lankan rupee.

We have entered into a series of foreign exchange forward contracts that are designated as cash flow hedges, designed to mitigate the impact of volatility in the U.S. dollar equivalent of our Indian rupee denominated expenses over a rolling 36 month period. As of March 31, 2015, the notional value of these contracts was \$121.4 million. The outstanding contracts as of March 31, 2015 are scheduled to mature each month through December 29, 2017. At March 31, 2015, the net unrealized gain on our outstanding cash flow hedge contracts was \$2.8 million. Based upon a sensitivity analysis of our cash flow hedge contracts at March 31, 2015, which estimates the fair value of the contracts based upon market exchange rate fluctuations, a 10% change in the foreign currency exchange rate against the U.S. dollar with all other variables held constant would have resulted in an increase or decrease in fair value of approximately \$12.3 million.

#### **Interest rate risk**

We had no debt outstanding at March 31, 2015. We do not believe we are exposed to material direct risks associated with changes in interest rates other than with our cash and cash equivalents, short-term investments and long-term investments. At March 31, 2015, we had \$235.9 million in cash and cash equivalents, short-term investments and long-term investments, the interest income from which is affected by changes in interest rates. Our invested securities primarily consist of government sponsored entity bonds, money market mutual funds, commercial paper and corporate debts. Our investments in debt securities are classified as “available-for-sale” and are recorded at fair value. Our “available-for-sale” investments are sensitive to changes in interest rates. Interest rate changes would result in a change in the net fair value of these financial instruments due to the difference between the market interest rate and the market interest rate at the date of purchase of the financial instrument. A 100 basis point increase or decrease in market interest rates at March 31, 2015 would impact the net fair value of such interest sensitive financial instruments by \$0.5 million.

#### **Concentration of credit risk**

Financial instruments which potentially expose us to concentrations of credit risk primarily consist of cash and cash equivalents, short-term investments and long-term investments, accounts receivable, derivative contracts, other financial assets and unbilled accounts receivable. We place our operating cash, investments and derivatives in highly-rated financial institutions. We adhere to a formal investment policy with the primary objective of preservation of principal, which contains credit rating minimums and diversification requirements. We believe that our credit policies reflect normal industry terms and business risk. We do not anticipate non-performance by the counterparties and, accordingly, do not require collateral. Credit losses and write-offs of accounts receivable balances have historically not been material to our consolidated financial statements and have not exceeded our expectations.

**Item 8. Financial Statements and Supplementary Data.**

**Virtusa Corporation and Subsidiaries  
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## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Virtusa Corporation and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Virtusa Corporation and Subsidiaries (the Company) as of March 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three year period ended March 31, 2015. In connection with our audits of the consolidated financial statements, we have also audited financial statement schedule II, Valuation and Qualifying Accounts. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Virtusa Corporation and Subsidiaries as of March 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three year period ended March 31, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Virtusa Corporation and Subsidiaries' internal control over financial reporting as of March 31, 2015, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated May 20, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Boston, Massachusetts  
May 20, 2015

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Virtusa Corporation and Subsidiaries:

We have audited Virtusa Corporation and Subsidiaries' internal control over financial reporting as of March 31, 2015, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Virtusa Corporation and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Virtusa Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2015, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Virtusa Corporation and Subsidiaries as of March 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2015, and our report dated May 20, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Boston, Massachusetts  
May 20, 2015

**Virtusa Corporation and Subsidiaries**  
**Consolidated Balance Sheets**  
(In thousands, except per share amounts)

	March 31, 2015	March 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$124,802	\$ 82,761
Short-term investments . . . . .	90,414	55,888
Accounts receivable, net of allowance of \$881 and \$1,130 at March 31, 2015 and 2014, respectively . . . . .	75,431	64,662
Unbilled accounts receivable . . . . .	27,914	26,548
Prepaid expenses . . . . .	7,428	9,036
Deferred income taxes . . . . .	7,639	6,610
Restricted cash . . . . .	45	2,662
Other current assets . . . . .	13,565	11,922
Total current assets . . . . .	347,238	260,089
Property and equipment, net . . . . .	37,988	35,346
Long-term investments . . . . .	20,732	62,015
Deferred income taxes . . . . .	4,764	4,651
Goodwill . . . . .	50,360	53,448
Intangible assets, net . . . . .	21,909	28,661
Other long-term assets . . . . .	6,746	5,215
Total assets . . . . .	\$489,737	\$449,425
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable . . . . .	\$ 8,693	\$ 11,002
Accrued employee compensation and benefits . . . . .	26,915	27,175
Accrued expenses and other . . . . .	23,762	27,299
Income taxes payable . . . . .	1,834	1,294
Total current liabilities . . . . .	61,204	66,770
Deferred income taxes . . . . .	1,996	2,744
Long-term liabilities . . . . .	2,762	5,841
Total liabilities . . . . .	65,962	75,355
Commitments and contingencies (See Note 16)		
Stockholders' equity:		
Undesignated preferred stock, \$0.01 par value; Authorized 5,000,000 shares at March 31, 2015 and 2014, respectively; Issued zero shares at March 31, 2015 and 2014, respectively . . . . .	—	—
Common stock, \$0.01 par value; Authorized 120,000,000 shares at March 31, 2015 and 2014, respectively; Issued 30,854,979 and 30,263,243 shares at March 31, 2015 and 2014, respectively; Outstanding 28,998,276 and 28,406,540 shares at March 31, 2015 and 2014, respectively . . . . .	309	303
Treasury stock, 1,856,703 common shares, at cost, at March 31, 2015 and 2014, respectively . . . . .	(9,652)	(9,652)
Additional paid-in capital . . . . .	283,178	269,511
Retained earnings . . . . .	184,068	141,622
Accumulated other comprehensive loss . . . . .	(34,128)	(27,714)
Total stockholders' equity . . . . .	423,775	374,070
Total liabilities, undesignated preferred stock and stockholders' equity . . . . .	\$489,737	\$449,425

See accompanying notes to consolidated financial statements

**Virtusa Corporation and Subsidiaries**  
**Consolidated Statements of Income**  
(In thousands, except per share amounts)

	Year Ended March 31,		
	2015	2014	2013
Revenue . . . . .	\$478,986	\$396,933	\$333,175
Costs of revenue . . . . .	304,422	250,533	215,866
Gross profit . . . . .	174,564	146,400	117,309
Operating expenses:			
Selling, general and administrative expenses . . . . .	121,996	103,988	84,450
Income from operations . . . . .	52,568	42,412	32,859
Other income (expense):			
Interest income . . . . .	5,264	3,726	2,977
Foreign currency transaction gains (losses) . . . . .	(357)	(396)	(68)
Other, net . . . . .	(75)	182	91
Total other income . . . . .	4,832	3,512	3,000
Income before income tax expense . . . . .	57,400	45,924	35,859
Income tax expense . . . . .	14,954	11,549	7,461
Net income . . . . .	\$ 42,446	\$ 34,375	\$ 28,398
Basic earnings per share . . . . .	\$ 1.48	\$ 1.32	\$ 1.14
Diluted earnings per share. . . . .	\$ 1.44	\$ 1.27	\$ 1.11

See accompanying notes to consolidated financial statements

**Virtusa Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
(In thousands, except per share amounts)

	Year Ended March 31,		
	2015	2014	2013
Net income . . . . .	\$ 42,446	\$34,375	\$28,398
Other comprehensive loss net of tax:			
Foreign currency translation adjustments . . . . .	(12,312)	(6,335)	(3,809)
Pension plan adjustment, net of tax effect of \$(12), \$0, \$0 . . . . .	(354)	202	(78)
Unrealized gain (loss) on available-for-sale securities, net of tax effect of \$21, \$(28), \$0 . . . . .	36	(51)	5
Unrealized gain (loss) on effective cash flow hedges, net of tax effect of \$2,017 \$(785), \$1,506 . . . . .	6,216	(2,816)	3,511
Other comprehensive loss . . . . .	\$ (6,414)	\$ (9,000)	\$ (371)
Comprehensive income . . . . .	\$ 36,032	\$25,375	\$28,027

See accompanying notes to consolidated financial statements

**Virtusa Corporation and Subsidiaries**  
**Consolidated Statements of Changes in Stockholders' Equity**  
(In thousands, except per share amounts)

	<u>Common Stock</u>		<u>Treasury Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>	<u>Other</u>	<u>Stockholders'</u>
					<u>Capital</u>		<u>Comprehensive</u>	<u>Equity</u>
							<u>Loss</u>	
<b>Balance at March 31, 2012</b> . .	26,553,299	\$266	(1,759,388)	\$(8,244)	\$165,646	\$ 78,849	\$(18,343)	\$218,174
Proceeds from the exercise of stock options and vesting of restricted stock . . . . .	480,519	4	—	—	2,165	—	—	2,169
Restricted stock awards withheld for tax . . . . .	—	—	—	—	(1,390)	—	—	(1,390)
Share based compensation . . .	—	—	—	—	5,876	—	—	5,876
Repurchase of common stock .	—	—	(97,315)	(1,408)	—	—	—	(1,408)
Excess tax benefits from stock option exercises . . . . .	—	—	—	—	759	—	—	759
Other comprehensive loss . . .	—	—	—	—	—	—	(371)	(371)
Net income . . . . .	—	—	—	—	—	28,398	—	28,398
<b>Balance at March 31, 2013</b> . .	<u>27,033,818</u>	<u>\$270</u>	<u>(1,856,703)</u>	<u>\$(9,652)</u>	<u>\$173,056</u>	<u>\$107,247</u>	<u>\$(18,714)</u>	<u>\$252,207</u>
Proceeds from the exercise of stock options and vesting of restricted stock . . . . .	584,425	6	—	—	2,569	—	—	2,575
Proceeds from issuance of common stock . . . . .	2,645,000	27	—	—	86,200	—	—	86,227
Restricted stock awards withheld for tax . . . . .	—	—	—	—	(3,678)	—	—	(3,678)
Share based compensation . . .	—	—	—	—	8,166	—	—	8,166
Repurchase of common stock .	—	—	—	—	—	—	—	—
Excess tax benefits from stock option exercises . . . . .	—	—	—	—	3,198	—	—	3,198
Other comprehensive loss . . .	—	—	—	—	—	—	(9,000)	(9,000)
Net income . . . . .	—	—	—	—	—	34,375	—	34,375
<b>Balance at March 31, 2014</b> . .	<u>30,263,243</u>	<u>\$303</u>	<u>(1,856,703)</u>	<u>\$(9,652)</u>	<u>\$269,511</u>	<u>\$141,622</u>	<u>\$(27,714)</u>	<u>\$374,070</u>
Proceeds from the exercise of stock options and vesting of restricted stock . . . . .	591,736	6	—	—	2,734	—	—	2,740
Restricted stock awards withheld for tax . . . . .	—	—	—	—	(4,857)	—	—	(4,857)
Share based compensation . . .	—	—	—	—	11,098	—	—	11,098
Excess tax benefits from stock option exercises . . . . .	—	—	—	—	4,692	—	—	4,692
Other comprehensive loss . . .	—	—	—	—	—	—	(6,414)	(6,414)
Net income . . . . .	—	—	—	—	—	42,446	—	42,446
<b>Balance at March 31, 2015</b> . .	<u>30,854,979</u>	<u>\$309</u>	<u>(1,856,703)</u>	<u>\$(9,652)</u>	<u>\$283,178</u>	<u>\$184,068</u>	<u>\$(34,128)</u>	<u>\$423,775</u>

See accompanying notes to consolidated financial statements

**Virtusa Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(In thousands)

	Year Ended March 31,		
	2015	2014	2013
Cash provided by operating activities:			
Net income	\$ 42,446	\$ 34,375	\$ 28,398
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,552	11,502	9,040
Share-based compensation expense	11,098	8,166	5,876
Reversal of contingent consideration	(1,833)	—	—
Provision for doubtful accounts, net	(134)	750	193
Loss (gain) on disposal of property and equipment	127	53	(100)
Deferred income taxes, net	(2,969)	1,618	(1,836)
Foreign currency losses, net	357	396	68
Amortization of discounts and premiums on investments	1,242	—	—
Excess tax benefits from stock option exercises	(4,692)	(3,198)	(759)
Net changes in operating assets and liabilities:			
Accounts receivable and unbilled receivable	(17,128)	(3,429)	(19,462)
Prepaid expenses and other current assets	4,497	(4,905)	(3,501)
Other long-term assets	(603)	(1,598)	471
Accounts payable	(212)	(228)	1,604
Accrued employee compensation and benefits	(4,385)	4,452	(1,440)
Accrued expenses and other	4,774	(2,717)	3,883
Income taxes payable	1,553	3,886	550
Other long-term liabilities	1,227	(204)	(232)
Net cash provided by operating activities	48,917	48,919	22,753
Cash flows used for investing activities:			
Proceeds from sale of property and equipment	160	80	117
Purchase of short-term investments	(14,075)	(23,313)	(13,676)
Proceeds from sale or maturity of short-term investments	38,696	10,802	12,717
Purchase of long-term investments	(33,720)	(70,151)	(11,303)
Proceeds from sale or maturity of long-term investments	13,612	800	1,258
Business acquisitions, net of cash acquired	(2,660)	(21,460)	(2,775)
Decrease (Increase) in restricted cash	2,639	(2,320)	2,544
Purchase of property and equipment	(14,729)	(7,482)	(12,587)
Net cash used for investing activities	(10,077)	(113,044)	(23,705)
Cash flows provided by financing activities:			
Proceeds from exercise of common stock options	2,740	2,575	2,169
Proceeds from issuance of common stock	—	86,227	—
Repurchases of common stock	—	—	(1,408)
Borrowings on revolving credit facility	—	20,000	—
Repayment of revolving credit facility	—	(20,000)	—
Payment of debt issuance costs	—	(242)	—
Payment of contingent consideration related to acquisitions	(2,087)	—	—
Principal payments on capital lease obligation	(120)	(18)	(1,026)
Excess tax benefits from stock option exercises	4,692	3,198	759
Net cash provided by financing activities	5,225	91,740	494
Effect of exchange rate changes on cash and cash equivalents	(2,024)	(2,053)	(448)
Net increase (decrease) in cash and cash equivalents	42,041	25,562	(906)
Cash and cash equivalents, beginning of year	82,761	57,199	58,105
Cash and cash equivalents, end of year	\$124,802	\$ 82,761	\$ 57,199
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 24	\$ 13	\$ 73
Cash receipts from interest	\$ 5,177	\$ 3,337	\$ 2,740
Cash paid for income tax	\$ 12,696	\$ 10,063	\$ 8,426
Non cash investing activities			
Assets acquired under capital lease	\$ 269	\$ 142	\$ 37

See accompanying notes to consolidated financial statements

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**(thousands, except share and per share amounts)**

**(1) Nature of the Business**

Virtusa Corporation (the “Company” or “Virtusa”) is a global information technology services company. The Company uses an enhanced global delivery model to provide end-to-end information technology (“IT”) services to Global 2000 companies. These services include IT and business consulting, user experience (“UX”) design, development of IT applications, maintenance and support services, systems integration, infrastructure and managed services. Using its enhanced global delivery model, innovative platforming approach and industry expertise, the Company provides cost-effective services that enable its clients to accelerate time to market, improve service and enhance productivity. Headquartered in Massachusetts, Virtusa has offices in the United States, the United Kingdom, Sweden, Germany, Netherlands and Austria and global delivery centers in India, Sri Lanka, Hungary, Singapore and Malaysia, as well as a near shore center in the United States.

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

***(a) Principles of Consolidation***

The consolidated financial statements reflect the accounts of the Company and its direct and indirect subsidiaries, Virtusa Consulting Services Private Limited, Virtusa Software Services Private Limited and Virtusa Technologies (India) Private Limited, each organized and located in India, Virtusa (Private) Limited, organized and located in Sri Lanka, Virtusa UK Limited, organized and located in the United Kingdom, Virtusa Securities Corporation, a Massachusetts securities corporation, Virtusa International, B.V., organized and located in the Netherlands, Virtusa Hungary Kft., incorporated and located in Hungary, Virtusa Germany GmbH, organized and located in Germany, Virtusa Switzerland GmbH, organized and located in Switzerland, Virtusa Singapore Private Limited, organized and located in Singapore, Virtusa Malaysia Private Limited Company located in Malaysia, Virtusa Austria GmbH, organized and located in Austria, Virtusa Philippines Inc. located in the Philippines, TradeTech Consulting Scandinavia AB located in Sweden and Virtusa Canada, Inc., a corporation organized under the laws of British Columbia, Canada. All intercompany transactions and balances have been eliminated in consolidation.

***(b) Use of Estimates***

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including the recoverability of tangible assets, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Management re-evaluates these estimates on an ongoing basis. The most significant estimates relate to the recognition of revenue and profits based on the percentage of completion method of accounting for fixed-price contracts, share-based compensation, income taxes, including reserves for uncertain tax positions, deferred taxes and liabilities, intangible assets, contingent consideration and valuation of financial instruments including derivative contracts and investments. Management bases its estimates on historical experience and on various other factors and assumptions that are believed to be reasonable under the circumstances. The actual amounts may vary from the estimates used in the preparation of the accompanying consolidated financial statements.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(thousands, except share and per share amounts)**

**(2) Summary of Significant Accounting Policies (Continued)**

***(c) Foreign Currency Translation***

The functional currencies of the Company's non-U.S. subsidiaries are the local currency of the country in which the subsidiary operates except for Hungary, which operates in the euro. Operating and capital expenditures of the Company's subsidiaries located in India, Sri Lanka, the Netherlands, Singapore, Malaysia, the Philippines, Germany, Austria, Sweden and the United Kingdom, are denominated in their local currency which is the currency most compatible with their expected economic results. India and Sri Lanka local expenditures form the underlying basis for intercompany transactions which are subsequently conducted in both U.S. dollars and U.K. pounds sterling. U.K. client sales contracts are primarily conducted in U.K. pounds sterling.

All transactions and account balances are recorded in the functional currency. The Company translates the value of these non-U.S. subsidiaries' local currency denominated assets and liabilities into U.S. dollars at the rates in effect at the balance sheet date. Resulting translation adjustments are recorded in stockholders' equity as a component of accumulated other comprehensive income (loss). The local currency denominated statement of income amounts are translated into U.S. dollars using the average exchange rates in effect during the period. Realized foreign currency transaction gains and losses are included in the consolidated statements of income. The Company's non-U.S. subsidiaries do not operate in "highly inflationary" countries.

***(d) Derivative Instruments and Hedging Activities***

The Company enters into forward foreign exchange contracts to mitigate the risk of changes in foreign exchange rates on intercompany transactions and forecasted transactions denominated in foreign currencies. The Company designates derivative contracts as cash flow hedges if they satisfy the criteria for hedge accounting. Changes in fair values of derivatives designated as cash flow hedges are deferred and recorded as a component of accumulated other comprehensive income, net of taxes, until the hedged transactions occur and are then recognized in the consolidated statements of income. Changes in fair value of derivatives not designated as hedging instruments and the ineffective portion of derivatives designated as cash flow hedges are recognized immediately in the consolidated statements of income.

With respect to derivatives designated as cash flow hedges, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Company also formally assesses both at the inception of the hedge and on an ongoing basis, whether each derivative will be highly effective in offsetting changes in fair values or cash flows of the hedged item. If the Company determines that a derivative or a portion thereof is not highly effective as a hedge, or if a derivative ceases to qualify for hedge accounting, the Company prospectively discontinues hedge accounting with respect to that derivative.

***(e) Cash and Cash Equivalents and Restricted Cash***

The Company considers all highly liquid investments with a remaining maturity of three months or less from the date of purchase to be cash equivalents. At March 31, 2015, cash equivalents consisted of money market instruments and certificates of deposit. The Company had short-term and long-term restricted cash totaling \$112 and \$2,755 at March 31, 2015 and 2014, respectively. During the fiscal year March 31, 2015 the Company released \$684 and \$1,976 which were held back related to the acquisition of

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(thousands, except share and per share amounts)**

**(2) Summary of Significant Accounting Policies (Continued)**

OSB Consulting LLC (“OSB”) and TradeTech Consulting Scandinavia AB (“TradeTech”), respectively. Restricted cash also includes restricted deposits with banks to secure the import of computer and other equipment, bank guarantees associated with the construction of the Company’s facility in India and Sri Lanka.

**(f) Investment Securities**

The Company classifies all debt securities as “available for sale”. These securities are classified as short-term investments and long-term investments on the consolidated balance sheet and are carried at fair market value. Any unrealized gains and losses on available for sale securities are reported in accumulated other comprehensive income, net of tax, as a separate component of stockholders’ equity unless the decline in value is deemed to be other-than-temporary, in which case, investments are written down to fair value and the loss is charged to the consolidated statement of income. Any realized gains and losses on trading securities are charged to the consolidated statement of income. The Company determines the cost of the securities sold based on the specific identification method.

The Company conducts a periodic review and evaluation of its investment securities to determine if the decline in fair value of any security is deemed to be other-than-temporary. Other-than-temporary impairment losses are recognized on securities when: (i) the holder has an intention to sell the security; (ii) it is more likely than not that the security will be required to be sold prior to recovery; or (iii) the holder does not expect to recover the entire amortized cost basis of the security. Other-than-temporary losses are reflected in earnings as a charge against gain on sale of investments to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. The Company has no intention to sell any securities in an unrealized loss position at March 31, 2015 nor is it more likely than not that the Company would be required to sell such securities prior to the recovery of the unrealized losses. At March 31, 2015, the Company believes that all impairments of investment securities are temporary in nature.

**(g) Goodwill and Other Intangible Assets**

The Company accounts for its business combinations under the acquisition method of accounting. The Company allocates the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price for acquisitions over the fair value of the net assets acquired, including other intangible assets, is recorded as goodwill. Goodwill is not amortized but is tested for impairment at the reporting unit level, defined as the Company level, at least annually in the fourth quarter of each fiscal year or more frequently when events or circumstances occur that indicate that it is more likely than not that an impairment has occurred. In assessing goodwill for impairment, an entity has the option to assess qualitative factors to determine whether events or circumstances indicate that it is not more likely than not that fair value of a reporting unit is less than its carry amount. If this is the case, then performing the quantitative two-step goodwill impairment test is unnecessary. An entity can choose not to perform a qualitative assessment for any or all of its reporting units, and proceed directly to the use of the two-step impairment test. The two-step process begins with an estimation of the fair value of a reporting unit. Goodwill impairment exists when a reporting unit’s carrying value of goodwill exceeds its implied fair value. Significant judgment is applied when goodwill is assessed for impairment.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(thousands, except share and per share amounts)**

**(2) Summary of Significant Accounting Policies (Continued)**

For the Company's goodwill impairment analysis, the Company operates under one reporting unit. Any impairment would be measured based upon the fair value of the related assets. In performing the first step of the goodwill impairment testing and measurement process, the Company compares its entity-wide estimated fair value to net book value to identify potential impairment. Management estimates the entity-wide fair value utilizing the Company's market capitalization, plus an appropriate control premium. Market capitalization is determined by multiplying the shares outstanding on the assessment date by the market price of the Company's common stock. If the market capitalization is not sufficiently in excess of the Company's book value, the Company will calculate the control premium which considers appropriate industry, market and other pertinent factors. If the fair value of the reporting unit is less than the book value, the second step is performed to determine if goodwill is impaired. If the Company determines through the impairment evaluation process that goodwill has been impaired, an impairment charge would be recorded in the consolidated statement of income. The Company completed the annual impairment test required during the fourth quarter of the fiscal year ended March 31, 2015 and determined that there was no impairment. The Company continues to closely monitor its market capitalization. If the Company's market capitalization, plus an estimated control premium, is below its carrying value for a period considered to be other-than-temporary, it is possible that the Company may be required to record an impairment of goodwill either as a result of the annual assessment that the Company conducts in the fourth quarter of each fiscal year, or in a future quarter if an indication of potential impairment is evident. The estimated fair value of the reporting unit on the assessment date significantly exceeded the carrying book value.

Other intangible assets acquired in a business combination are recognized at fair value using generally accepted valuation methods appropriate for the type of intangible asset and reported separately from goodwill. Intangible assets with definite lives are amortized over the estimated useful lives and are tested for impairment when events or circumstances occur that indicate that it is more likely than not that an impairment has occurred. The Company tests other intangible assets with definite lives for impairment by comparing the carrying amount to the sum of the net undiscounted cash flows expected to be generated by the asset whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount of the asset exceeds its net undiscounted cash flows, then an impairment loss is recognized for the amount by which the carrying amount exceeds its fair value.

***(h) Fair Value of Financial Instruments***

At March 31, 2015 and 2014 the carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, unbilled accounts receivable, restricted cash, accounts payable, accrued employee compensation and benefits and other accrued expenses, approximate their fair values due to the nature of the items. See note 7 for a discussion of the fair value of the Company's other financial instruments.

***(i) Concentration of Credit Risk and Significant Customers***

Financial instruments which potentially expose the Company to concentrations of credit risk are primarily comprised of cash and cash equivalents, investments, derivatives, accounts receivable and unbilled accounts receivable. The Company places its cash, investments and derivatives in highly-rated financial institutions. The Company adheres to a formal investment policy with the primary objective of preservation of principal, which contains credit rating minimums and diversification requirements.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(2) Summary of Significant Accounting Policies (Continued)**

Management believes its credit policies reflect normal industry terms and business risk. The Company does not anticipate non-performance by the counterparties and, accordingly, does not require collateral.

At March 31, 2015, two clients accounted for 13% and 10% respectively, of gross accounts receivable. At March 31, 2014, one client accounted for 10% of gross accounts receivable. Revenue from significant clients as a percentage of the Company's consolidated revenue was as follows:

	Year Ended March 31,		
	2015	2014	2013
Customer A . . . . .	12%	13%	11%
Customer B . . . . .	11%	13%	14%

**(j) Property and Equipment**

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the shorter of their lease term or the estimated useful life of the related asset. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income. Repair and maintenance costs are expensed as incurred.

**(k) Long-Lived Assets**

The Company reviews the carrying value of its long-lived assets or asset groups with definite useful lives to be held and used for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying value of an asset to the future net undiscounted cash flows directly associated with the asset. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying value exceeds the fair value of the asset. The Company uses a discounted cash flow approach or other methods, if appropriate, to assess fair value.

Long-lived assets to be disposed of by sale are reported at the lower of carrying value or fair value less cost to sell and depreciation is ceased. Long-lived assets to be disposed of other than by sale are considered to be held and used until disposal.

**(l) Internally-Developed Software**

The Company capitalizes costs incurred during the application development stage, which include costs to design the software configuration and interfaces, coding, installation and testing. Costs incurred during the preliminary project stage, along with post-implementation stages of internal use computer software, are expensed as incurred. Capitalized development costs are typically amortized over the estimated life of the software, typically three to ten years, using the straight line method, beginning with the date that an asset is ready for its intended use. At March 31, 2015 and 2014, capitalized software development costs, which include software development work in progress, were approximately \$7,302 and \$5,603, respectively. These costs were recorded in property and equipment. For the fiscal years ended March 31, 2015, 2014 and 2013, amortization of capitalized software development costs amounted to approximately \$706, \$733 and \$351, respectively.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(thousands, except share and per share amounts)**

**(2) Summary of Significant Accounting Policies (Continued)**

***(m) Income Taxes***

Income taxes are accounted for using the asset and liability method whereby deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations in multiple jurisdictions. The Company records liabilities for estimated tax obligations in the United States and other tax jurisdictions in which it has operations (see note 12).

***(n) Revenue Recognition***

The Company derives its revenue from a variety of IT consulting, technology implementation and application outsourcing services. Contracts for these services have different terms and conditions based on the scope, deliverables, and complexity of the engagement which require management to make judgments and estimates in determining the overall cost to the customer. Fees for these contracts may be in the form of time-and-materials or fixed-price arrangements and volume discounts are recorded as a reduction of revenue over the contractual period as services are performed.

Revenue on time-and-material contracts is recognized as the services are performed and amounts are earned. The Company considers amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable, and collectability is reasonably assured. For contracts with fees based on time-and-materials, the Company recognizes revenue over the period of performance.

Revenue from fixed-price contracts is accounted for under the percentage-of-completion method. Under the percentage-of-completion method, management estimates the percentage of completion based upon efforts incurred as a percentage of the total estimated efforts for the specified engagement. When total cost estimates exceed revenue, the Company accrues for the estimated losses immediately. The use of the percentage-of-completion method requires significant judgment relative to estimating total contract revenue and efforts, including assumptions relative to the length of time to complete the project, the nature and complexity of the work to be performed, and anticipated changes in other engagement-related costs. The Company's analysis of these contracts also contemplates whether contracts should be combined or segmented. The Company combines closely related contracts when all the applicable criteria under U.S. GAAP are met. Similarly, The Company may segment a project, which may consist of a single contract or a group of contracts, with varying rates of profitability, only if all the applicable criteria under U.S. GAAP are met. Estimates of total contract revenue and efforts are continuously monitored during the term of the contract and are subject to revision as the contract progresses. When revisions in estimated contract revenue and efforts are determined, such adjustments are recorded in the period in which they are first identified.

Revenue includes reimbursements of travel and out-of-pocket expenses, with equivalent amounts of expense recorded in costs of revenue, of \$10,877, \$5,921 and \$7,001 for the fiscal years ended March 31, 2015, 2014 and 2013, respectively.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(2) Summary of Significant Accounting Policies (Continued)**

Any tax assessed by a governmental authority that is incurred as a result of a revenue transaction (e.g. sales tax) is excluded from revenue and reported on a net basis.

**(o) Costs of Revenue and Operating Expenses**

Costs of revenue consist principally of salaries, employee benefits and stock compensation expense, reimbursable and non-reimbursable travel costs, subcontractor fees, and immigration related expenses for IT professionals. Selling and marketing expenses are charged to operating expenses as incurred. Selling and marketing expenses are those expenses associated with promoting and selling the Company's services and include such items as sales and marketing personnel salaries, stock compensation expense and related fringe benefits, commissions, travel, and the cost of advertising and other promotional activities. Advertising and promotional expenses incurred were approximately \$430, \$255 and \$204 for the fiscal years ended March 31, 2015, 2014 and 2013, respectively.

General and administrative expenses include other operating items such as officers' and administrative personnel salaries, stock compensation expense and related fringe benefits, legal and audit expenses, public company related expenses, insurance, provision for doubtful accounts, depreciation and amortization, including amortization of purchased intangibles and operating lease expenses.

**(p) Share-Based Compensation**

Share-based compensation cost is determined by estimating the fair value at the grant date of the Company's common stock using the Black-Scholes option pricing model, and expensing the total compensation cost on a straight line basis (net of estimated forfeitures) over the requisite employee service period. The allocation of total share-based compensation expense between costs of revenue and selling, general and administrative expenses were as follows:

	<b>Year Ended March 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Costs of revenue . . . . .	\$ 1,121	\$ 912	\$ 718
Selling, general and administrative expenses . . . . .	9,977	7,254	5,158
Total share-based compensation expense . . . . .	\$11,098	\$8,166	\$5,876

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option pricing valuation model with the following assumptions:

<b>Weighted Average Fair Value Options Pricing Model Assumptions</b>	<b>Year Ended March 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Risk-free interest rate . . . . .	1.62%	1.31%	0.88%
Expected term (in years) . . . . .	5.02	5.60	6.15
Anticipated common stock volatility . . . . .	42.59%	52.31%	62.53%
Expected dividend yield . . . . .	0%	0%	0%

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(thousands, except share and per share amounts)**

**(2) Summary of Significant Accounting Policies (Continued)**

The risk-free interest rate assumptions are based on the interpolation of various U.S. Treasury bill rates in effect during the month in which stock option awards are granted. For the fiscal years ended March 31, 2015 and 2014 the Company's volatility assumption is based on the historical volatility rates of the Company's common stock from exchange traded shares over periods commensurate with the expected term of each grant. For the fiscal year ended March 31, 2013 the Company's volatility assumption is based on the historical volatility rates of the common stock of its publicly held peers over periods commensurate with the expected term of each grant.

The expected term of employee share-based awards represents the weighted average period of time that awards are expected to remain outstanding. The determination of the expected term of share-based awards assumes that employees' behavior is a function of the awards vested, contractual lives, and the extent to which the award is in the money. Accordingly, for the fiscal years ended March 31, 2015 and 2014, the expected term of our options is based on historical employee exercise patterns. For fiscal year ended March 31, 2013 the Company had elected to use the "simplified" method of determining the expected term or life of its share-based awards due to the Company's limited trading history. The fair value of restricted awards and deferred stock awards is determined based on the number of stock awards granted and the quoted price of our stock at date of grant.

As of March 31, 2015, there was \$14,988 of total unrecognized compensation cost related to unvested stock options, restricted stock awards and deferred stock awards granted under the Company's Amended and Restated 2000 Option Plan and the Company's 2007 Stock Option and Incentive Plan (see note 11 for a more complete description of these plans). The unrecognized compensation cost is expected to be recognized over a remaining weighted average period of 1.59 years.

***(q) Allowance for Doubtful Accounts***

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of clients to make required payments. The allowance for doubtful accounts is determined by evaluating the relative credit worthiness of each client, historical collections experience and other information, including the aging of the receivables. We evaluate the collectability of our accounts receivables on an on-going basis and write-off accounts when they are deemed to be uncollectible.

***(r) Unbilled Accounts Receivable***

Unbilled accounts receivable represent revenue on contracts to be billed, in subsequent periods, as per the terms of the related contracts.

***(s) Recent Accounting Pronouncements***

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on April 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(thousands, except share and per share amounts)**

**(2) Summary of Significant Accounting Policies (Continued)**

consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In June 2014, the FASB issued ASU No. 2014-12—"Stock Compensation—Accounting for Share-Based Payments. In some cases, the terms of an award may provide that a performance target that affects vesting could be achieved after an employee completes the requisite service period. That is, the employee would be eligible to vest in the award regardless of whether the employee is rendering service on the date the performance target is achieved. A performance target that affects vesting and that could be achieved after an employee's requisite service period shall be accounted for as a performance condition. As such, the performance target shall not be reflected in estimating the fair value of the award at the grant date. Compensation cost shall be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service already has been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost for which requisite service has not yet been rendered shall be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period shall reflect the number of awards that are expected to vest and shall be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. As indicated in the definition of vest, the stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period. The ASU is effective for annual and interim periods for fiscal years beginning on or after December 15, 2015. Entities can apply the amendment either a) prospectively to all awards granted or modified after the effective date or b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The ASU does not have an impact on the consolidated financial statements.

**(3) Earnings per Share**

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding for the period, and diluted earnings per share is computed by including the dilutive impact of common stock equivalents outstanding for the period in the denominator. Common stock equivalents include shares issuable upon the exercise of outstanding stock options, SARs, unvested restricted stock, net of shares assumed to have been purchased with the proceeds, using the

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(3) Earnings per Share (Continued)**

treasury stock method. The following table sets forth the computation of basic and diluted earnings per share for the periods set forth below:

	Year Ended March 31,		
	2015	2014	2013
Numerators:			
Net income available to common stockholders . . . . .	\$ 42,446	34,375	\$ 28,398
Denominators:			
Weighted average common shares outstanding . . . . .	28,753,102	26,116,516	24,937,162
Dilutive effect of employee stock options and unvested restricted stock awards . . . . .	794,883	842,864	683,470
Dilutive effect of stock appreciation rights . . . . .	7,639	13,621	18,207
Weighted average shares—diluted . . . . .	29,555,624	26,973,001	25,638,839
Basic earnings per share . . . . .	\$ 1.48	\$ 1.32	\$ 1.14
Diluted earnings per share . . . . .	\$ 1.44	\$ 1.27	\$ 1.11

During the fiscal years ended March 31, 2015, 2014, and 2013, unvested restricted stock and options to purchase 21,629, 29,766 and 450,299 shares of common stock, respectively, were excluded from the calculations of diluted earnings per share as their effect would have been anti-dilutive.

**(4) Acquisitions**

On November 1, 2013, the Company acquired substantially all of the business and assets of OSB pursuant to an asset purchase agreement dated November 1, 2013 (the “Asset Purchase Agreement”) by and among OSB and the sole member of OSB. The acquisition of OSB extends the Company’s service offerings to include a broader set of finance transformation services in the financial services and insurance domains, to existing and new clients, including service offerings targeted to enable clients to automate their finance and accounting processes, reporting capabilities, including SAP based capabilities, and regulatory compliance programs.

The purchase price was \$6,840 in cash. Ten percent of the purchase price was subject to a hold back by the Company for a period of 12 months as security for the sellers’ indemnification obligations under the Asset Purchase Agreement. The purchase price is subject to adjustment after the closing of up to an additional \$6,000 in earn-out consideration, in the aggregate, upon the achievement of certain revenue and operating margin targets for the five months ending March 31, 2014, the nine months ending December 31, 2014 and the twelve months ending December 31, 2015. The fair value of the contingent consideration at March 31, 2015 and March 31, 2014 was \$2,432 and \$4,042, respectively. During the fiscal year ended March 31, 2015, the Company paid \$3,000 earn-out consideration to the sellers of OSB, which represents 100% achievement of the targets for the five months ending March 31, 2014 and the nine months ending December 31, 2014. Changes in fair value of the contingent consideration were \$1,390 during the fiscal year ended March 31, 2015 and were recorded to selling, general and administrative expenses. During the fiscal year ended March 31, 2015, the Company paid \$684 to OSB with respect to the hold back.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(4) Acquisitions (Continued)**

Under the terms of the Asset Purchase Agreement, the Company agreed to offer employment to all of the employees of OSB, including certain key employees and the sole member of OSB.

There are no material relationships between the Company or any of its affiliates and any of the parties to the Asset Purchase Agreement and related agreements, other than with respect to such agreements themselves.

On January 2, 2014, Virtusa International B.V., a wholly owned subsidiary of the Company organized and formed in the Netherlands (“Virtusa BV”), acquired all of the outstanding shares of TradeTech, and its subsidiaries (together with TradeTech, the “TradeTech Group”), pursuant to a share purchase agreement dated as of January 2, 2014 (the “Share Purchase Agreement”) by and among Virtusa BV and the shareholders of TradeTech (the “TradeTech Shareholders”). The acquisition is intended to expand the Company’s position within the banking, financial services and insurance industries by increasing its asset management and treasury services domain and technology expertise, as well as expanding the Company’s global presence into the Nordic countries.

Under the terms of the Share Purchase Agreement, Virtusa BV acquired all the outstanding shares of TradeTech for \$19,555 in cash, as well as up to \$4,080 in earn-out consideration subject to the TradeTech Group’s achievement of certain revenue and EBITA targets for the 12-month period ending December 31, 2014. At June 30, 2014, the Company determined that the earn-out consideration targets would not be achieved for the 12-month period ending December 31, 2014, resulting in a reduction of \$1,833 in the fair value of the recorded earn-out liability for the fiscal year ended March 31, 2015. The fair value of the contingent consideration at March 31, 2015 and 2014 is \$0 and \$1,883, respectively. The reduction of the entire fair value of the earn-out consideration of \$1,833 was recorded as a reduction to selling, general and administration expenses in the fiscal year ended March 31, 2015. Under the terms of the Share Purchase Agreement, 12.5% of the purchase price was also held back and placed into escrow by the Company for a period of 12 months as security for the indemnification obligations of the TradeTech Shareholders. The Company also agreed to issue an aggregate of up to \$2,000 in deferred restricted stock awards from the Company’s stock option and incentive plan, not to exceed an aggregate of 65,000 shares, to certain of these new TradeTech Group employees. The shares will be recognized as compensation cost over the requisite employee service period. The shares will vest annually over a five year period. During the fiscal year ended March 31, 2015, the Company released \$1,976 to TradeTech with respect to the hold back.

**(5) Goodwill and Intangible Assets**

**Goodwill:**

The Company has one reportable segment at March 31, 2015. The following are details of the changes in goodwill balance at March 31, 2015:

	<u>Amount</u>
Balance at April 1, 2014 . . . . .	\$53,448
Foreign currency translation adjustments . . . . .	(3,088)
Balance at March 31, 2015 . . . . .	<u>\$50,360</u>

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(5) Goodwill and Intangible Assets (Continued)**

The acquisition costs and goodwill balance deductible for our business acquisitions for tax purposes are \$41,834. The acquisition costs and goodwill balance not deductible for tax purposes are \$9,917 and relate to the Company's TradeTech acquisition.

The Company performed the annual assessment of its goodwill during the fourth quarter of the fiscal year ended March 31, 2015 and determined that the estimated fair value of the Company's reporting unit exceeded its carrying value and therefore goodwill was not impaired. The Company will continue to complete goodwill impairment assessments at least annually during the fourth quarter of each ensuing fiscal year. The Company will continue to evaluate whether events or circumstances have occurred that indicate that the estimated remaining useful life of its long-lived assets, including intangible assets, may warrant revision or that the carrying value of these assets may be impaired. Any write downs are treated as permanent reductions in the carrying amount of the assets.

**Intangible Assets:**

The following are details of the Company's intangible asset carrying amounts acquired and amortization for the fiscal year ended March 31, 2015 and March 31, 2014:

<b>March 31, 2015</b>				
	<b>Weighted Average Useful Life</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Amortizable intangible assets:				
Customer relationships . . . . .	9.4	\$34,070	\$12,259	\$21,811
Partner relationships . . . . .	6.5	700	602	98
Trademark . . . . .	1.0	57	57	—
Backlog . . . . .	1.0	1,143	1,143	—
	<u>9.0</u>	<u>\$35,970</u>	<u>\$14,061</u>	<u>\$21,909</u>
<b>March 31, 2014</b>				
	<b>Weighted Average Useful Life</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Amortizable intangible assets:				
Customer relationships . . . . .	9.4	\$36,410	\$ 8,978	\$27,432
Partner relationships . . . . .	6.5	700	486	214
Trademark . . . . .	1.0	75	18	57
Backlog . . . . .	1.0	1,512	554	958
	<u>9.0</u>	<u>\$38,697</u>	<u>\$10,036</u>	<u>\$28,661</u>

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(5) Goodwill and Intangible Assets (Continued)**

The Company's amortization expense related to intangible assets acquired through acquisitions was \$4,436, \$3,431 and \$2,556 for the fiscal years ended March 31, 2015, 2014 and 2013, respectively. The components included in the gross carrying amounts of amortization expense in the table above reflect the Company's acquisition of all the outstanding stock of Insource Holdings, Inc. and its subsidiaries on November 4, 2009, the Company's purchase of substantially all of the assets of ConVista Consulting LLC, on February 1, 2010, the Company's purchase of substantially all of the assets of ALaS Consulting LLC, on July 1, 2011, the Company's purchase of substantially all of the assets of OSB on November 1, 2013 and the Company's acquisition of all the outstanding stock of TradeTech on January 2, 2014. The intangible assets are being amortized on either a straight-line basis or on an accelerated basis using the most appropriate economic pattern of consumption over their estimated useful lives.

The estimated amortization expense related to the purchased intangible assets listed in the table above at March 31, 2015 is as follows for the following fiscal years:

<u>Fiscal year</u>	<u>Amount</u>
2016 .....	\$ 3,828
2017 .....	3,732
2018 .....	3,455
2019 .....	2,460
2020 .....	2,453
Thereafter .....	5,981
Total .....	<u>\$21,909</u>

**(6) Investment Securities**

At March 31, 2015 and 2014, all of the Company's investment securities were classified as available-for-sale and were carried on its balance sheet at their fair market value. A fair market value hierarchy based on three levels of inputs was used to measure each security (see note 7).

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(6) Investment Securities (Continued)**

The following is a summary of investment securities at March 31, 2015:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available-for-sale securities:</b>				
Corporate bonds:				
Current . . . . .	\$ 41,873	\$10	\$(22)	\$ 41,861
Non-current . . . . .	10,551	—	(21)	10,530
Agency and short-term notes:				
Current . . . . .	6,737	3	—	6,740
Non-current . . . . .	10,203	1	(2)	10,202
Municipal bonds:				
Current . . . . .	200	—	—	200
Time deposits:				
Current . . . . .	41,613	—	—	41,613
Total available-for-sale securities . . . . .	<u>\$111,177</u>	<u>\$14</u>	<u>\$(45)</u>	<u>\$111,146</u>

The following is a summary of investment securities at March 31, 2014:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available-for-sale securities:</b>				
Corporate bonds:				
Current . . . . .	\$ 20,255	\$ 9	\$ (8)	\$ 20,256
Non-current . . . . .	50,264	5	(70)	50,199
Auction-rate securities:				
Non-current . . . . .	300	—	(12)	288
Agency and short-term notes:				
Current . . . . .	561	—	—	561
Non-current . . . . .	11,341	1	(14)	11,328
Commercial paper:				
Current . . . . .	5,497	—	—	5,497
Municipal bonds:				
Non-current . . . . .	200	—	—	200
Time deposits:				
Current . . . . .	29,574	—	—	29,574
Total available-for-sale securities . . . . .	<u>\$117,992</u>	<u>\$15</u>	<u>\$(104)</u>	<u>\$117,903</u>

The Company evaluates investments with unrealized losses to determine if the losses are other than temporary. The Company has determined that the gross unrealized losses on its available-for-sale securities at March 31, 2015 are temporary. The Company conducts a periodic review and evaluation of its investment securities to determine if the decline in fair value of any security is deemed to be

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(6) Investment Securities (Continued)**

other-than-temporary. Other-than-temporary losses are reflected in earnings as a charge against gain on sale of investments to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income.

The following tables show the gross unrealized losses and fair value of the Company's investment securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2015 and March 31, 2014:

**Less Than 12 Months**

	<u>Fair Value</u>	<u>Gross Unrealized Loss</u>
<b>Available-for-sale securities at March 31, 2015:</b>		
Corporate bonds . . . . .	\$36,272	\$(41)
Agency bonds . . . . .	5,001	(2)
Total . . . . .	<u>\$41,273</u>	<u>\$(43)</u>
<b>Available-for-sale securities at March 31, 2014:</b>		
Corporate bonds . . . . .	\$49,082	\$(78)
Agency bonds . . . . .	9,802	(14)
Total . . . . .	<u>\$58,884</u>	<u>\$(92)</u>

**Greater Than 12 Months**

	<u>Fair Value</u>	<u>Gross Unrealized Loss</u>
<b>Available-for-sale securities at March 31, 2015:</b>		
Corporate bonds . . . . .	\$1,901	(2)
Agency bonds . . . . .	1,100	—
Total . . . . .	<u>\$3,001</u>	<u>\$ (2)</u>
<b>Available-for-sale securities at March 31, 2014:</b>		
Auction-rate securities . . . . .	288	(12)
Total . . . . .	<u>\$ 288</u>	<u>\$(12)</u>

At March 31, 2015, there were no investment securities owned by the Company for which the fair value was less than the carrying value for a period greater than 12 months.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(6) Investment Securities (Continued)**

Available-for-sale securities by contractual maturity were as follows:

	<u>March 31, 2015</u>
Due in one year or less . . . . .	\$ 90,414
Due after 1 year through 5 years . . . . .	20,732
Due after 5 years . . . . .	<u>—</u>
Total . . . . .	<u>\$111,146</u>

Proceeds from sales of available-for-sale investment securities and the gross gains and losses that have been included in earnings as a result of those sales were as follows:

	<u>Year Ended March 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proceeds from sales of available-for-sale investment securities . . . . .	\$52,308	\$11,602	13,975
Gross gains . . . . .	\$ 6	\$ —	\$ —
Gross losses . . . . .	<u>(5)</u>	<u>—</u>	<u>—</u>
Net realized gains on sales of available-for-sale investment securities . . . . .	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ —</u>

The Company previously invested in auction-rate securities whose underlying assets are generally student loans which are substantially backed by the U.S. federal government. At March 31, 2015, the Company does not have any auction rate securities.

**(7) Fair Value of Financial Instruments**

The Company uses a framework for measuring fair value under U.S. generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The Company's financial assets and liabilities reflected in the consolidated financial statements at carrying value include marketable securities and other financial instruments which approximate fair value. Fair value for marketable securities is determined using a market approach based on quoted market prices at period end in active markets. The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(7) Fair Value of Financial Instruments (Continued)**

- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

An entity is allowed to elect to record financial assets and financial liabilities at fair value upon their initial recognition on a contract- by-contract basis.

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis at March 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Available-for-sales securities—current . . . .	\$—	\$ 90,414	\$ —	\$ 90,414
Available-for-sales securities—non-current .	—	20,732	—	20,732
Foreign currency derivative contracts . . . . .	—	4,644	—	4,644
Total assets . . . . .	\$—	\$115,790	\$ —	\$115,790
Liabilities:				
Foreign currency derivative contracts . . . . .	\$—	\$ 1,802	\$ —	\$ 1,802
Contingent consideration . . . . .	—	—	2,432	2,432
Total liabilities . . . . .	\$—	\$ 1,802	\$2,432	\$ 4,234

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets at March 31, 2015:

	<u>Level 3 Assets</u>
Balance at April 1, 2014 . . . . .	\$ 288
Auction-rate securities redeemed at par . . . . .	(300)
Total gains reclassified out of other comprehensive income . . . . .	12
Balance at March 31, 2015 . . . . .	\$ —

The Company determines the fair value of the contingent consideration related to the Company's acquisitions of OSB and TradeTech based on the probability of attaining certain revenue and profit margin targets using an appropriate discount rate to present value the liability. See Note 4 of the notes to our financial statements included herein for a description of OSB and TradeTech acquisitions and related

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(7) Fair Value of Financial Instruments (Continued)**

contingent consideration targets. The following table provides a summary of changes in fair value of the Company's Level 3 financial liabilities as of March 31, 2015.

	<b>Level 3 Liabilities</b>
Balance at April 1, 2014 .....	\$ 5,925
Payment of OSB contingent consideration (See Note 4) .....	(3,000)
Reversal of the TradeTech earn-out recognized in earnings (See Note 4) ..	(1,833)
Increase of the OSB earn-out recognized in earnings (See Note 4) .....	1,390
Foreign currency translation adjustments .....	(50)
Balance at March 31, 2015 .....	<u>\$ 2,432</u>

**(8) Property and Equipment**

Property and equipment and their estimated useful lives in years consist of the following:

	<b>Estimated Useful Life (Years)</b>	<b>March 31,</b>	
		<b>2015</b>	<b>2014</b>
Computer and other equipment .....	3 - 5	\$27,513	\$25,623
Furniture and fixtures .....	7	8,629	8,075
Vehicles .....	3 - 5	1,041	740
Software .....	3 - 10	16,255	12,796
Leasehold improvements .....	Lesser of estimated useful life or lease term	5,418	4,686
Buildings .....	15 - 30	11,563	11,853
Land .....		320	331
Capital work-in-progress .....		3,452	1,867
		<u>\$74,191</u>	<u>\$65,971</u>
Less—accumulated depreciation and amortization .....		<u>36,203</u>	<u>30,625</u>
Property and equipment, net .....		<u>\$37,988</u>	<u>\$35,346</u>

Depreciation and amortization expense for the fiscal years ended March 31, 2015, 2014 and 2013 was \$9,116, \$8,071 and \$6,484, respectively. Capital work-in-progress represents advances paid towards the acquisition of property and equipment, and the cost of property and equipment including internally developed software not placed in service before the balance sheet date. The cost and accumulated amortization of assets under capital leases at March 31, 2015 were \$370 and \$86, respectively. The cost and accumulated amortization of assets under capital leases at March 31, 2014 were \$142 and \$26, respectively.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(9) Accrued Expenses and Other**

Accrued expenses and other consists of the following:

	March 31, 2015	March 31, 2014
Accrued other taxes . . . . .	\$ 4,137	\$ 3,813
Accrued professional fees . . . . .	6,978	5,804
Acquisition related liabilities . . . . .	2,432	6,890
Hedge liability . . . . .	1,183	4,195
Accrued discounts . . . . .	3,867	2,261
Accrued other . . . . .	5,165	4,336
Total . . . . .	<u>\$23,762</u>	<u>\$27,299</u>

**(10) Debt**

On December 31, 2013, the Company entered into an amended and restated credit agreement with JPMorgan Chase Bank, N.A. (“JPM”). The credit agreement amended and restated the Company’s \$3,000 secured revolving credit agreement with JPM and provides for a \$25,000 secured revolving credit facility, which shall be available to fund working capital and other corporate purposes, as well as to serve as security in support of the Company’s foreign currency hedging programs. The credit agreement contains financial covenants that require the Company to maintain a Funded Debt to Adjusted EBITDA Ratio of not more than 2.00 to 1.00 and a Fixed Charge Coverage Ratio of less than 2.50 to 1.00, each as determined for the trailing twelve month period ending on each fiscal quarter. The Company is currently in compliance with all covenants contained in the credit agreement and believes that the credit agreement provides sufficient flexibility to enable continued compliance with its terms. Interest under this credit facility accrues at a rate between LIBOR plus 1.5% and LIBOR plus 1.75% based on the Company’s ratio of indebtedness to Adjusted EBITDA. The term of the credit facility is five years, ending December 31, 2018. This facility replaced the Company’s prior \$3,000 line of credit with JPM. At March 31, 2015, there were no borrowings outstanding under the credit facility

Beginning in fiscal 2009, the Company’s U.K. subsidiary entered into an agreement with an unrelated financial institution to sell, without recourse or continuing involvement, certain of its European-based accounts receivable balances from one client to such third party financial institution. During the course of the fiscal year ended March 31, 2015, \$28,291 of receivables were sold under the terms of the financing agreement. Fees paid pursuant to this agreement were immaterial during the fiscal year ended March 31, 2015. No amounts were due as of March 31, 2015, but the Company may elect to use this program again in future periods. However, the Company cannot provide any assurances that this or any other financing facilities will be available or utilized in the future. The Company had no letters of credit outstanding at March 31, 2015 and 2014.

**(11) Stock Options, Restricted Stock Awards and Stock Appreciation Rights**

The Company’s Amended and Restated 2000 Stock Option Plan (the “2000 Plan”) was adopted in the fiscal year ended March 31, 2001. Under the 2000 Plan, shares were reserved for issuance to the Company’s employees, directors, and consultants. The 2000 Plan was amended over the years to reduce the number of shares reserved for issuance to a total of 11,630 as of March 31, 2015. Options granted

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(thousands, except share and per share amounts)**

**(11) Stock Options, Restricted Stock Awards and Stock Appreciation Rights (Continued)**

under the 2000 Plan may be incentive stock options, nonqualified stock options or restricted stock. Incentive stock options may only be granted to employees. Options granted have a term of ten years and generally vest over four years. The Company settles employee stock option exercises with newly issued shares. The compensation committee of the board of directors determines (upon board of director approval) the term of awards on an individual case basis. The exercise price of incentive stock options shall be no less than 100% of the fair market value per share of the Company's common stock on the grant date. If an individual owns stock representing more than 10% of the outstanding shares, the price of each share shall be at least 110% of fair market value. In May 2007, the Company's board of directors determined that no further grants would be made under the 2000 Plan.

In July 2005, the Company adopted the Virtusa Corporation 2005 Stock Appreciation Rights Plan (the "SAR Plan"). Under the SAR Plan, the Company may grant up to 479,233 SARs to employees and consultants of Virtusa and its foreign subsidiaries, and settles the SARs in cash or common stock, as set forth in the SAR Plan. Prior to the Company's initial public offering ("IPO"), the SARs could only be settled in cash. After the Company's IPO, the cash settlement feature of the SARs ceased and exercises may only be settled in shares of the Company's common stock. In May 2007, the Company's board of directors determined that no further grants would be made under the SAR Plan.

The Company's board of directors and its stockholders approved the Company's 2007 Stock Option and Incentive Plan (the "2007 Plan"), in May 2007, and the stockholders of the Company again approved the 2007 Plan in September 2008. The 2007 Plan permits the Company to make grants of incentive stock options, non-qualified stock options, SARs, deferred stock awards, restricted stock awards, unrestricted stock awards, and dividend equivalent rights. The Company reserved 830,670 shares of its common stock for the issuance of awards under the 2007 Plan. The 2007 Plan provides that the number of shares reserved and available for issuance under the plan will be automatically increased each April 1, beginning in 2008, by 2.9% of the outstanding number of shares of common stock on the immediately preceding March 31 or such lower number of shares of common stock as determined by the board of directors. This number is subject to adjustment in the event of a stock split, stock dividend or other change in the Company's capitalization. Generally, shares that are forfeited, cancelled or withheld to settle tax liabilities from awards under the 2007 Plan also will be available for future awards. In addition, available shares under the 2000 Plan and the SAR Plan, as a result of the forfeiture, expiration, cancellation, termination or net issuances of awards, are automatically made available for issuance under the 2007 Plan. At March 31, 2015, the number of shares reserved for issuance under the 2007 Plan is 2,371,828.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(11) Stock Options, Restricted Stock Awards and Stock Appreciation Rights (Continued)**

The following tables summarize stock option and restricted stock activity under the 2000 Plan and the 2007 Plan for the fiscal years ended March 31, 2015, 2014 and 2013:

	Number of Options to Purchase Common Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value
Outstanding at March 31, 2012 . . . . .	1,587,324	\$ 9.97		
Granted . . . . .	93,153	15.61		
Exercised . . . . .	(267,575)	8.22		
Forfeited or cancelled . . . . .	(43,560)	14.28		
Outstanding at March 31, 2013 . . . . .	1,369,342	10.56		
Granted . . . . .	49,201	28.37		
Exercised . . . . .	(321,577)	8.11		
Forfeited or cancelled . . . . .	(12,037)	18.00		
Outstanding at March 31, 2014 . . . . .	1,084,929	12.01		
Granted . . . . .	833	33.23		
Exercised . . . . .	(269,384)	8.56		
Forfeited or cancelled . . . . .	(9,522)	15.60		
Outstanding at March 31, 2015 . . . . .	806,856	\$13.15	4.94	\$22,781
Exercisable at March 31, 2015 . . . . .	668,606	\$12.03	4.45	\$19,626

	Number of Restricted Stock Awards	Weighted Average Grant date Fair Value
Unvested at March 31, 2012 . . . . .	831,656	\$15.43
Awarded . . . . .	465,733	15.04
Vested . . . . .	(284,833)	14.27
Forfeited . . . . .	(43,157)	16.34
Unvested at March 31, 2013 . . . . .	969,399	15.55
Awarded . . . . .	268,578	26.70
Vested . . . . .	(377,359)	14.56
Forfeited . . . . .	(57,898)	15.51
Unvested at March 31, 2014 . . . . .	802,720	19.74
Awarded . . . . .	197,715	33.91
Vested . . . . .	(296,538)	18.34
Forfeited . . . . .	(65,419)	21.49
Unvested at March 31, 2015 . . . . .	638,478	\$24.60

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(11) Stock Options, Restricted Stock Awards and Stock Appreciation Rights (Continued)**

	Restricted Stock Unit Activity	
	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Unvested at March 31, 2012 . . . . .	49,416	\$16.59
Awarded . . . . .	—	—
Vested . . . . .	(12,354)	16.59
Forfeited . . . . .	—	—
Unvested at March 31, 2013 . . . . .	37,062	16.59
Awarded . . . . .	217,147	27.99
Vested . . . . .	(19,875)	20.00
Forfeited . . . . .	—	—
Unvested at March 31, 2014 . . . . .	234,334	26.87
Awarded . . . . .	264,579	33.18
Vested . . . . .	(87,783)	25.61
Forfeited . . . . .	(6,333)	33.91
Unvested at March 31, 2015 . . . . .	404,797	\$31.16

The aggregate intrinsic value of options exercised during the fiscal years ended March 31, 2015, 2014 and 2013 was \$7,556, \$6,304 and \$2,873, respectively. The weighted average fair value of options granted during the fiscal year ended March 31, 2015, 2014 and 2013 was \$13.04, \$13.85 and \$8.96, respectively. During the fiscal year ended March 31, 2015, 2014 and 2013 the Company realized \$4,692, \$3,198 and \$759 respectively, of income tax benefits from the exercise of stock options as a windfall credit.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(11) Stock Options, Restricted Stock Awards and Stock Appreciation Rights (Continued)**

The tables below summarize information about the SAR Plan activity for the fiscal years ended March 31, 2015, 2014 and 2013 as follows:

	SAR Plan Activity			
	Number of SARs	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value
Outstanding at March 31, 2012 . . . . .	31,146	4.36		
Granted . . . . .	—	—		
Exercised . . . . .	(8,378)	3.72		
Forfeited or cancelled . . . . .	(399)	4.84		
Outstanding at March 31, 2013 . . . . .	22,369	4.60		
Granted . . . . .	—	—		
Exercised . . . . .	(8,176)	4.84		
Forfeited or cancelled . . . . .	(2,072)	2.29		
Outstanding at March 31, 2014 . . . . .	12,121	4.82		
Granted . . . . .	—	—		
Exercised . . . . .	(6,626)	5.34		
Forfeited or cancelled . . . . .	(385)	6.28		
Outstanding and exercisable at March 31, 2015 . . . . .	<u>5,110</u>	<u>\$4.04</u>	<u>1.22</u>	<u>\$191</u>

The aggregate intrinsic value of SARs exercised during the fiscal years ended March 31, 2015, 2014 and 2013 was \$216, \$221 and \$113, respectively.

**(12) Income Taxes**

The income before income tax expense shown below is based on the geographic location to which such income is attributed for each of the fiscal years ended March 31, 2015, 2014 and 2013:

	Year Ended March 31,		
	2015	2014	2013
United States . . . . .	\$15,734	\$10,876	\$ 7,471
Foreign . . . . .	<u>41,666</u>	<u>35,048</u>	<u>28,388</u>
Total . . . . .	<u>\$57,400</u>	<u>\$45,924</u>	<u>\$35,859</u>

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(12) Income Taxes (Continued)**

The provision for income taxes for each of the fiscal years ended March 31, 2015, 2014 and 2013 consisted of the following:

	<u>Year Ended March 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current provision:			
Federal . . . . .	\$ 8,217	\$ 2,973	\$ 3,390
State . . . . .	2,415	874	1,002
Foreign . . . . .	7,291	6,084	4,905
Total current provision . . . . .	<u>\$17,923</u>	<u>\$ 9,931</u>	<u>\$ 9,297</u>
Deferred (benefit) provision:			
Federal . . . . .	\$(2,066)	\$ 1,173	\$ (468)
State . . . . .	(616)	272	(146)
Foreign . . . . .	(287)	173	(1,222)
Total deferred (benefit) provision . . . . .	<u>\$(2,969)</u>	<u>\$ 1,618</u>	<u>\$(1,836)</u>
Total provision for income taxes . . . . .	<u>\$14,954</u>	<u>\$11,549</u>	<u>\$ 7,461</u>

The items which gave rise to differences between the income taxes in the statements of income and the income taxes computed at the U.S. statutory rate are summarized as follows:

	<u>Year Ended March 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutory tax rate . . . . .	35.0%	34.0%	34.0%
U.S. state and local taxes, net of U.S. federal income tax effects . . . . .	1.9	1.6	1.6
Benefit from foreign subsidiaries' tax holidays . . . . .	(8.8)	(9.8)	(15.7)
Foreign rate difference . . . . .	(3.2)	(2.2)	0.1
Permanent items . . . . .	1.3	1.3	2.4
Other adjustments . . . . .	(0.1)	0.2	(1.6)
Effective income tax rate . . . . .	<u>26.1%</u>	<u>25.1%</u>	<u>20.8%</u>

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(12) Income Taxes (Continued)**

Deferred tax assets (liabilities) at March 31, 2015 and 2014 were as follows:

	March 31,	
	2015	2014
Deferred revenue . . . . .	\$ 309	\$ 154
Bad debt reserve . . . . .	261	291
Tax credit carry forwards . . . . .	3,861	3,983
Accrued expenses and reserves . . . . .	8,418	6,539
Share-based compensation expense . . . . .	3,151	3,298
Intangibles . . . . .	3,058	2,593
Unrealized losses . . . . .	—	1,610
Net operating loss . . . . .	1,046	73
Total gross deferred tax assets . . . . .	<u>\$20,104</u>	<u>\$ 18,541</u>
Valuation allowance . . . . .	(902)	—
Total deferred tax assets . . . . .	<u>\$19,202</u>	<u>\$ 18,541</u>
Depreciation . . . . .	(1,050)	(798)
Unrealized gains . . . . .	(409)	—
Acquisition and other liabilities . . . . .	(4,212)	(6,231)
Goodwill . . . . .	(3,585)	(2,995)
Total deferred tax liabilities . . . . .	<u>\$ (9,256)</u>	<u>\$ (10,024)</u>
Net deferred tax assets/liabilities . . . . .	<u>\$ 9,946</u>	<u>\$ 8,517</u>

At March 31, 2015 and 2014, all current and long-term deferred tax liabilities are offset against the current and long-term deferred tax assets and recorded on a net basis by tax jurisdiction.

The ultimate realization of deferred tax assets is dependent upon management's assessment of the Company's ability to generate sufficient taxable income to realize the deferred tax assets during the periods in which the temporary differences become deductible. Management considers the historical level of taxable income, projections for future taxable income, and tax planning strategies in making this assessment. The Company assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to realize the existing deferred tax assets. As of March 31, 2015, the Company determined it is more likely than not that a portion of the Netherlands net operating losses ("NOL") will not be realized and concluded that a partial valuation allowance was required. The Company recorded increases to the valuation allowance totaling \$902 during the fiscal year ended March 31, 2015, of which \$73 was recorded in income tax expense and \$829 in other comprehensive loss. The Company has determined for all other deferred assets that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

At March 31, 2015, the Company has \$252 of US foreign tax credits which begin to expire in March 2022, \$3,609 of Indian Minimum Alternative Tax ("MAT") credits which begin to expire at various dates through 2025 and \$1,046 of foreign NOL, with indefinite life. The Company has determined that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(thousands, except share and per share amounts)**

**(12) Income Taxes (Continued)**

During the fiscal year ended March 31, 2015, the Company recorded \$2,026 of net income tax expense directly in other comprehensive income related to the unrealized gain/loss on available for sale securities, the unrealized gain/loss on effective cash flow hedges and the foreign currency loss on certain long-term intercompany balances. During the fiscal year ended March 31, 2015, the Company recognized \$4,692 of net income tax benefit directly in additional paid in capital related to net excess tax benefits of share-based compensation.

The Company created two export oriented units in India, one in Bangalore during the fiscal year ended March 31, 2011 and a second unit in Hyderabad (Special Economic Zone or “SEZ”) during the fiscal year ended March 31, 2010 for which no income tax exemptions were availed. The Indian subsidiaries also operate two development centers in areas designated as a SEZ, under the SEZ Act of 2005. In particular, the Company was approved as an SEZ Co-developer and has built a campus on a 6.3 acre parcel of land in Hyderabad, India that has been designated as an SEZ. As an SEZ Co-developer, the Company is entitled to certain tax benefits for any consecutive period of 10 years during the 15 year period starting in fiscal year 2008. The Company has elected to claim SEZ Co-developer income tax benefits starting in fiscal year ended March 31, 2013. In addition, the Company has leased facilities in SEZ designated locations in Hyderabad and Chennai, India. The Company’s profits from the Hyderabad and Chennai SEZ operations are eligible for certain income tax exemptions for a period of up to 15 years beginning in fiscal March 31, 2009. Our India profits ineligible for SEZ benefits are subject to corporate income tax at the current rate of 33.99%. In the fiscal year ended March 31, 2014, the Company leased a facility in SEZ designated location in Bangalore and Pune, India each of which is eligible for tax holidays for up to 15 years beginning in the fiscal year ended March 31, 2014. Based on the latest changes in tax laws, book profits of SEZ units are subject to MAT, commencing April 1, 2011, which will continue to negatively impact the Company’s cash flows.

In addition, the Company’s Sri Lankan subsidiary, Virtusa (Private) Limited, is operating under a 12-year income tax holiday arrangement that is set to expire on March 31, 2019 and required Virtusa (Private) Limited to meet certain job creation and investment criteria by March 31, 2015. During the fiscal year ended March 2015, the Company believes it has fulfilled its hiring and investment commitments and is eligible for tax holiday through March 2019. The current agreement provides income tax exemption for all export business income. The Company has submitted the required support to the Board of Investment and is awaiting confirmation. At March 31, 2015, the Company believes it is eligible for the entire 12-year tax holiday.

The India and Sri Lanka income tax holidays reduced the overall tax provision and increased both net income and diluted earnings per share in the fiscal years ended March 31, 2015, 2014 and 2013 by \$5,048, \$4,513 and \$5,647, respectively, and by \$0.17, \$0.17 and \$0.22, respectively. As of March 31, 2015, two SEZ tax holidays in Chennai and Hyderabad, India are subject to a partial expiration of fifty percent of their tax benefits. The partial expiration of SEZ tax holidays in Chennai and Hyderabad, respectively, negatively impacted net income and diluted earnings per share in the fiscal year ended March 31, 2015, by \$830 and \$1,195, and by \$0.03 and \$0.04, respectively.

The Company intends to indefinitely reinvest all of its accumulated and future foreign earnings outside the United States. At March 31, 2015, the Company had \$193,268 of unremitted earnings from foreign subsidiaries and approximately \$99,155 of cash and short-term investments that would otherwise be available for potential distribution, if not indefinitely reinvested. Due to the various methods by which such

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
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**(12) Income Taxes (Continued)**

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 and is not practically determinable.

Due to the geographical scope of the Company's operations, the Company is subject to tax examinations in various jurisdictions. The Company's ongoing assessments of the more-likely-than-not outcomes of these examinations and related tax positions require judgment and can increase or decrease the Company's effective tax rate, as well as impact the Company's operating results. The specific timing of when the resolution of each tax position will be reached is uncertain. The Company does not believe that the outcome of any ongoing examination will have a material effect on its consolidated financial statements within the next twelve months. The Company's major taxing jurisdictions include the United States, the United Kingdom, India and Sri Lanka. In the United States, the Company remains subject to examination for all tax years ended after March 31, 2012. In the foreign jurisdictions, the Company generally remains subject to examination for tax years ended after March 31, 2005.

Each fiscal year, unrecognized tax benefits may be adjusted upon the closing of the statute of limitations for income tax returns filed in various jurisdictions. The total amount of unrecognized tax benefits that would reduce income tax expense and the effective income tax rate, if recognized, is \$546, \$410 and \$512 as of March 31, 2015, 2014 and 2013, respectively. Although it would be difficult to anticipate the final outcome on timing of resolution of any particular uncertain tax position, the Company anticipates that \$109 of unrecognized tax benefits will reverse during the twelve month period ending March 31, 2016 due to settlement or expiration of statute of limitations on open tax years. All of these benefits are expected to have an impact on the effective tax rate as they are realized.

The following summarizes the activity related to the gross unrecognized tax benefits:

	Year Ended March 31,		
	2015	2014	2013
Balance as of beginning of the fiscal year . . . . .	\$410	\$ 4,823	\$5,957
Foreign currency translation related to prior year tax positions . . . . .	(3)	(32)	—
Decreases related to prior year tax positions . . . . .	—	(208)	(499)
Decreases related to prior year tax positions due to settlements or lapse in applicable statute of limitations . . . . .	(94)	(4,311)	(947)
Increases related to prior year tax positions . . . . .	233	138	312
Balance at end of the fiscal year . . . . .	<u>\$546</u>	<u>\$ 410</u>	<u>\$4,823</u>

The Company continues to classify accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the fiscal years ended March 31, 2015 and 2014, the Company expensed accrued interest and penalties of \$55 and \$62, respectively, through income tax expense consistent with its prior positions, to reflect interest and penalties on certain unrecognized tax benefits as part of income tax. The total accrued interest and penalties, including foreign currency translation relating to certain foreign and domestic tax matters at March 31, 2015 and 2014, were \$360 and \$324, respectively. During the fiscal year ended March 31, 2015, the Company's unrecognized tax benefits increased by \$136. The increase in the unrecognized tax benefits during the fiscal year ended March 31, 2015 was primarily related to a certain tax exposures related to tax returns where the statute of limitations has not yet expired. The net movement in unrecognized tax benefits for the fiscal year ended March 31, 2015 was as follows: \$183

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(12) Income Taxes (Continued)**

recorded in the income tax expense, offset by \$44 of cash payments for settlement of prior uncertain tax positions and \$3 to other comprehensive income (“OCI”) for foreign currency impact.

The Company has been under income tax examination in India. The Indian taxing authorities issued an assessment order with respect to their examination of the various tax returns for the fiscal years ended March 31, 2005 to March 31, 2012 of the Company’s Indian subsidiary, Virtusa (India) Private Ltd, now merged with and into Virtusa Consulting Services Private Limited (collectively referred to as “Virtusa India”). At issue were several matters, the most significant of which was the redetermination of the arm’s-length profit which should be recorded by Virtusa India on the intercompany transactions with its affiliates. During the fiscal year ended March 31, 2011, the Company entered into a competent authority settlement and settled the uncertain tax position for the fiscal years ended March 31, 2004 and 2005. However, the redetermination of arm’s-length profit on transactions with respect to the Company’s subsidiaries and Virtusa UK Limited has not been resolved and remains under appeal for the fiscal year ended March 31, 2005. The Company is currently appealing assessments for fiscal years ended March 31, 2005 through 2012.

**(13) Post-retirement Benefits**

The Company has noncontributory defined benefit plans (the “Benefit Plans”) covering its employees in India and Sri Lanka as mandated by the Indian and Sri Lankan governments. Benefits are based on the employee’s years of service and compensation at the time of termination. The Company uses March 31 as the measurement date for its plans.

**Cost of pension plans**

	Year Ended March 31,		
	2015	2014	2013
<b>Components of net periodic pension expense</b>			
Expected return on plan assets . . . . .	\$(214)	\$(210)	\$(188)
Service costs for benefits earned . . . . .	564	527	452
Interest cost on projected benefit obligation . . . . .	233	205	179
Amortization of prior service cost . . . . .	10	10	11
Recognized net actuarial loss . . . . .	114	90	92
<b>Net periodic pension expense . . . . .</b>	<b>\$ 707</b>	<b>\$ 622</b>	<b>\$ 546</b>

**Actuarial assumptions**

	Year Ended March 31,		
	2015	2014	2013
Discount rate . . . . .	7.80% - 10.00%	8.00% - 11.5%	8.00% - 12.25%
Compensation increases (annual) . . . . .	7.00% - 7.50%	7.00% - 7.50%	7.00% - 7.50%
Expected return on assets . . . . .	8.50% - 12.52%	8.50% - 12.25%	8.50% - 13.13%

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(13) Post-retirement Benefits (Continued)**

The discount rate is based upon high quality fixed income investments in India and Sri Lanka. The discount rates at March 31, 2015 were used to measure the year-end benefit obligations and the pension cost for the subsequent year.

To determine the expected long-term rate of return on pension plan assets, the Company considers the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. The Company amortizes unrecognized actuarial gains or losses over a period no longer than the average future service of employees.

The Company's benefit obligations are described in the following tables. Accumulated and projected benefit obligations ("ABO" and "PBO", respectively) represent the obligations of a pension plan for past service as of the measurement date. ABO is the present value of benefits earned to date with benefits computed based on current compensation levels. PBO is ABO increased to reflect expected future compensation.

**Accumulated benefit obligation and projected benefit obligation**

	<b>As of March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Accumulated benefit obligation</b> . . . . .	<b>\$2,393</b>	<b>\$1,939</b>
<b>Projected benefit obligation:</b>		
Beginning balance . . . . .	\$2,758	\$2,580
Service cost . . . . .	564	527
Interest cost . . . . .	233	205
Actuarial (gain) loss . . . . .	535	(25)
Benefits paid . . . . .	(391)	(352)
Exchange rate adjustments . . . . .	(95)	(177)
Ending balance . . . . .	<b>\$3,604</b>	<b>\$2,758</b>

**Fair value of plan assets**

	<b>Plan assets</b>
Balance at April 1, 2014 . . . . .	\$2,822
Employer contributions . . . . .	447
Actual gain on plan assets . . . . .	265
Benefits paid . . . . .	(391)
Exchange rate adjustments . . . . .	(89)
Balance at March 31, 2015 . . . . .	<b>\$3,054</b>

At March 31, 2015, India and Sri Lanka together had \$550 of net projected benefit obligation recorded in the consolidated balance sheets as "accrued employee compensation and benefits". At March 31, 2014, India had \$258 of excess funding recorded in the consolidated balance sheets as "other

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(13) Post-retirement Benefits (Continued)**

long-term assets” and Sri Lanka had \$194 of net projected benefit obligation recorded in the consolidated balance sheets as “accrued employee compensation and benefits”.

**Plan asset allocation**

	<b>March 31, 2015</b>	
	<b>Target Allocation</b>	<b>Actual Allocation</b>
Government securities .....	50% - 60%	52%
Corporate debt .....	30% - 50%	47%
Other .....	1% - 20%	1%

The Company’s plan assets are being managed by insurance companies in India and Sri Lanka.

**Plan Assets**

The following table presents the fair values of the Company’s pension plan assets.

<b>Asset Category</b>	<b>Fair Value Measurements</b>		
	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>
<b>At March 31, 2015</b>			
Government Bonds(1) .....	\$1,382	\$ —	\$1,382
Corporate Bonds(2) .....	1,062	—	1,062
Equity Shares and Others(3) .....	610	185	425
	<u>\$3,054</u>	<u>\$185</u>	<u>\$2,869</u>
<b>At March 31, 2014</b>			
Government Bonds(1) .....	\$1,166	\$ —	\$1,166
Corporate Bonds(2) .....	1,059	—	1,059
Equity Shares and Others(3) .....	597	185	412
	<u>\$2,822</u>	<u>\$185</u>	<u>\$2,637</u>

(1) This category comprises government fixed income investments with investments in India and Sri Lanka.

(2) This category represents investment in bonds and debentures from diverse industries.

(3) This category represents equity shares, money market investments and other investments.

The fair values of the government bonds are measured based on market quotes. Corporate bonds and other bonds are valued based on market quotes as of the balance sheet date. Equity share funds are valued at their market prices as of the balance sheet date. Money market funds are valued at their market price.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(13) Post-retirement Benefits (Continued)**

**Pension liability**

	<u>March 31,</u>	
	<u>2015</u>	<u>2014</u>
PBO .....	\$3,604	\$2,758
Fair value of plan assets .....	3,054	2,822
Funded status recognized .....	\$ 550	\$ (64)
Amount recorded in accumulated other comprehensive income .	<u>\$ 932</u>	<u>\$ 578</u>

The amount in accumulated other comprehensive income (loss) that is expected to be recognized as a component of net periodic benefit cost over the fiscal year ended March 31, 2016 is \$163. The Company expects to contribute \$1,000 to its gratuity plans during the fiscal year ending March 31, 2016.

The pretax amounts of prior service cost and actuarial gain (loss) recognized from accumulated other comprehensive income consists of:

	<u>March 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Prior service cost .....	\$ (10)	\$ (10)	\$(10)
Net amortization gain (loss) .....	(114)	(90)	82
Total .....	<u>\$(124)</u>	<u>\$(100)</u>	<u>\$ 72</u>

**Estimated future benefits payments**

<u>Fiscal year ending March 31:</u>	
2016 .....	\$ 775
2017 .....	702
2018 .....	785
2019 .....	1,267
2020 .....	1,001
2021 - 2025 .....	6,802

**(14) 401(k) Plan**

The Company sponsors a defined contribution retirement savings plan, qualified under Section 401(k) of the Internal Revenue Code (the “401(k) Plan”). Eligible employees may defer a portion of their compensation into the Company’s 401(k) Plan on a pre-tax and/or Roth basis. The Company’s 401(k) Plan currently offers a safe harbor match feature that provides Company matching contributions for certain employee contributions. For the fiscal periods ended March 31, 2015 and 2014, the Company recorded \$740 and \$746 for the employer match, respectively. The Company’s 401(k) Plan may be amended at the discretion of the Company’s board of directors to discontinue the safe harbor match program at any time.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(15) Accumulated Other Comprehensive Loss**

The changes in the components of accumulated other comprehensive loss were as follows:

	<b>March 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Investment securities</b>			
Beginning balance . . . . .	\$ (54)	\$ (3)	\$ (8)
Other comprehensive income (loss) (OCI) before reclassifications, net of tax of \$21, \$(28), \$0 . . . . .	36	(51)	5
Reclassifications from OCI to other income, net of tax of \$0 for all periods . . . . .	<u>—</u>	<u>—</u>	<u>—</u>
Comprehensive income (loss) on investment securities, net of tax of \$21, \$(28), \$0 . . . . .	36	(51)	5
Closing Balance . . . . .	<u>\$ (18)</u>	<u>\$ (54)</u>	<u>\$ (3)</u>
<b>Currency translation adjustments</b>			
Beginning balance . . . . .	\$(23,253)	\$(16,918)	\$(13,109)
Recognized in OCI . . . . .	<u>(12,312)</u>	<u>(6,335)</u>	<u>(3,809)</u>
Closing balance . . . . .	<u>\$(35,565)</u>	<u>\$(23,253)</u>	<u>\$(16,918)</u>
<b>Cash flow hedges</b>			
Beginning balance . . . . .	\$ (3,829)	\$ (1,013)	\$ (4,524)
OCI before reclassifications net of tax of \$1,511, \$(2,993), \$(954) . . . . .	5,169	(7,291)	(1,210)
Reclassifications from OCI to			
—Costs of revenue, net of tax of \$321, \$1,377, \$1,578 . . . . .	659	2,793	3,030
—Selling, general and administrative expenses, net of tax of \$185, \$831, \$882 . . . . .	<u>388</u>	<u>1,682</u>	<u>1,691</u>
Comprehensive income (loss) on cash flow hedges, net of tax of \$2,017, \$(785), \$1,506 . . . . .	6,216	(2,816)	3,511
Closing balance . . . . .	<u>\$ 2,387</u>	<u>\$ (3,829)</u>	<u>\$ (1,013)</u>
<b>Benefit plans</b>			
Beginning balance . . . . .	\$ (578)	\$ (780)	\$ (702)
OCI before reclassifications net of tax of \$(16), \$0, \$0 . . . . .	(477)	37	(175)
Reclassifications from OCI for prior service credit (cost) to:			
—Costs of revenue, net of tax of \$2,\$0,\$0 . . . . .	66	71	56
—Selling, general and administrative expenses, net of tax of \$2, \$0, \$0 . .	45	19	37
Reclassifications from OCI for net actuarial gain (loss) amortization to:			
—Costs of revenue, net of tax of \$0 for all periods . . . . .	8	8	6
—Selling, general and administrative expenses, net of tax of \$0 for all periods . . . . .	2	2	4
Other adjustments . . . . .	<u>2</u>	<u>65</u>	<u>(6)</u>
Comprehensive income (loss) on benefit plans, net of tax of \$(12), \$0, \$0 . .	(354)	202	(78)
Closing balance . . . . .	<u>\$ (932)</u>	<u>\$ (578)</u>	<u>\$ (780)</u>
<b>Accumulated other comprehensive income (loss)</b> . . . . .	<u>\$(34,128)</u>	<u>\$(27,714)</u>	<u>\$(18,714)</u>

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(16) Commitments, Contingencies and Guarantees**

The Company leases office space under operating leases, which expire at various dates through fiscal year 2023. Certain leases contain renewal provisions and generally require the Company to pay utilities, insurance, taxes, and other operating expenses.

Future minimum lease payments under non-cancelable leases for the five fiscal years following March 31, 2015 and thereafter are:

	<u>Operating Leases</u>	<u>Capital Leases</u>
Fiscal year ending March 31:		
2016 .....	\$ 7,502	\$118
2017 .....	7,308	115
2018 .....	5,358	58
2019 .....	2,031	12
2020 .....	1,280	—
2021 and thereafter .....	1,325	—
Total minimum lease payments .....	<u>\$24,804</u>	<u>\$303</u>
Less: amount representing interest .....		47
Present value of future lease payments .....		\$256
Less: current portion .....		91
Long term capital lease obligation .....		<u>\$165</u>

Total rental expense for operating leases was approximately \$8,015, \$6,535 and \$5,367 for the fiscal years ended March 31, 2015, 2014 and 2013, respectively. Total amortization expenses for the assets purchased under capital leases were \$77, \$17 and \$6 for the fiscal year ended March 31, 2015, 2014 and 2013 respectively.

The Company indemnifies its officers and directors for certain events or occurrences under its charter or by-laws and under indemnification agreements while the officer or director is, or was, serving at its request in a defined capacity. The term of the indemnification period is with respect to the period that such person was an officer or director of the Company. The maximum potential amount of future payments the Company could be required to make under these indemnification obligations is unlimited. The costs incurred to defend lawsuits or settle claims related to these indemnification obligations have not been material. As a result, the Company believes that its estimated exposure on these obligations is minimal. Accordingly, the Company had no liabilities recorded for these obligations as of March 31, 2015.

The Company is insured against any actual or alleged act, error, omission, neglect, misstatement or misleading statement or breach of duty by any current or former officer, director or employee while rendering information technology services. The Company believes that its financial exposure from such actual or alleged actions, should they arise, is minimal and no liability was recorded at March 31, 2015.

The Company is not a party to any pending litigation or other legal proceedings that are likely to have a material adverse effect on its consolidated financial statements.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(thousands, except share and per share amounts)**

**(17) Derivative Financial Instruments and Trading Activities**

The Company evaluates its foreign exchange policy on an ongoing basis to assess its ability to address foreign exchange exposures on its consolidated balance sheets, statements of income and consolidated statement of cash flows from all foreign currencies, including most significantly the U.K. pound sterling, the euro, Indian rupee and Sri Lankan rupee. The Company enters into hedging programs with highly rated financial institutions in accordance with its foreign exchange policy (as approved by the Company's audit committee and board of directors) which permits hedging of material, known foreign currency exposures. Currently, the Company maintains three hedging programs, each with varying contract types, duration and purposes. The Company's "Cash Flow Program" is designed to mitigate the impact of volatility in the U.S. dollar equivalent of the Company's Indian rupee denominated expenses over a rolling 36-month period. The Cash Flow Program transactions currently meet the criteria for hedge accounting as cash flow hedges. The Company's "Balance Sheet Program" involves the use of 30-day derivative instruments designed to mitigate the monthly impact of foreign exchange gains/losses on certain intercompany balances and payments. The Company's "Economic Hedge Program" involves the purchase of derivative instruments with maturities of up to 92 days, and is designed to mitigate the impact of foreign exchange on U.K. pound sterling, the euro and Swedish krona denominated revenue and costs with respect to the quarter for which such instruments are purchased. The Balance Sheet Program and the Economic Hedge Program are treated as economic hedges as these programs do not meet the criteria for hedge accounting and all gains and losses are recognized in consolidated statement of income under the same line item as the underlying exposure being hedged.

Changes in fair value of the designated cash flow hedges for our Cash Flow Program are recorded as a component of accumulated other comprehensive income (loss) ("AOCI"), net of tax until the forecasted hedged transactions occur and are then recognized in the consolidated statements of income in the same line item as the item being hedged. The Company evaluates hedge effectiveness at the time a contract is entered into, as well as on an ongoing basis. If and when hedge relationships are discontinued, and should the forecasted transaction be deemed probable of not occurring by the end of the originally specified period or within an additional two-month period of time thereafter, any related derivative amounts recorded in equity are reclassified to earnings in other income (expense). There were no amounts reclassified to earnings as a result of hedge ineffectiveness for the fiscal years ended March 31, 2015 or 2014.

Changes in the fair value of the hedges for the Balance Sheet Program and the Economic Hedge Program, if any, are recognized in the same line item as the underlying exposure being hedged and the ineffective portion of cash flow hedges, if any, is recognized as other income (expense). The Company values its derivatives based on market observable inputs including both forward and spot prices for currencies. Any significant change in the forward or spot prices for hedged currencies would have a significant impact on the value of the Company's derivatives.

The U.S. dollar equivalent market value, which consists of the notional value and net unrealized gain or loss, of all outstanding foreign currency derivative contracts was \$121,380 and \$102,801 at March 31, 2015 and 2014, respectively. Unrealized net gains related to these contracts which are expected to be reclassified from AOCI to earnings during the next 12 months are \$2,102 at March 31, 2015. At March 31, 2015, the maximum outstanding term of any derivative instrument was 33 months.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(17) Derivative Financial Instruments and Trading Activities (Continued)**

The following tables set forth the fair value of derivative instruments included in the consolidated balance sheets at March 31, 2015 and March 31, 2014:

**Derivatives designated as hedging instruments**

	<u>March 31, 2015</u>	<u>March 31, 2014</u>
<b>Foreign currency exchange contracts:</b>		
Other current assets . . . . .	\$3,285	\$ 398
Other long-term assets . . . . .	\$1,359	\$ 586
Accrued expenses and others . . . . .	\$1,183	\$3,925
Long-term liabilities . . . . .	\$ 619	\$2,449

The following tables set forth the effect of the Company's foreign currency exchange contracts on the consolidated financial statements of the Company for the fiscal years ended March 31, 2015 and 2014:

<u>Derivatives Designated as Cash Flow Hedging Relationships</u>	<u>Amount of Gain or (Loss) Recognized in AOCI on Derivatives (Effective Portion)</u>	
	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Foreign currency exchange contracts . . . . .	\$6,680	\$(10,284)

<u>Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)</u>	<u>Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)</u>	
	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Costs of revenue . . . . .	\$(980)	\$(4,170)
Operating expenses . . . . .	\$(573)	\$(2,513)

<u>Derivatives not Designated as Hedging Instruments</u>	<u>Location of Gain Or (Loss) Recognized in Income on Derivatives</u>	<u>Amount of Gain or (Loss) Recognized in Income on Derivatives</u>	
		<u>March 31, 2015</u>	<u>March 31, 2014</u>
Foreign currency exchange contracts	Foreign currency transaction gains (losses) . . . . .	\$ 66	\$(2,388)
	Revenue . . . . .	\$(389)	\$ (847)
	Costs of revenue . . . . .	\$(279)	\$ 343
	Selling, general and administrative expenses . . . . .	\$ (93)	\$ 50

**(18) Business Segment Information**

Accounting pronouncements establish standards for the manner in which public companies report information about operating segments in annual and interim financial statements. Operating segments are component of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker on deciding on how to allocate resources and in assessing performance. The Company's chief operating decision-maker is considered to be the Company's Chief

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(18) Business Segment Information (Continued)**

Executive Officer. The Company's Chief Executive Officer reviews financial information presented on an entity level basis for purposes of making operating decisions and assessing financial performance. Therefore, the Company has determined that it operates in a single operating and reportable segment.

**Geographic information:**

Total revenue is attributed to geographic areas based on location of the client. Geographic information is summarized as follows:

	Year Ended March 31,		
	2015	2014	2013
Customer revenue:			
North America . . . . .	\$319,285	\$278,318	\$251,219
Europe . . . . .	129,904	97,178	65,863
Other . . . . .	29,797	21,437	16,093
Consolidated revenue . . . . .	<u>\$478,986</u>	<u>\$396,933</u>	<u>\$333,175</u>
	March 31,		
	2015	2014	
Long-lived assets, net of accumulated depreciation and amortization:			
North America . . . . .	\$ 59,316	\$ 61,562	
Asia . . . . .	32,896	32,235	
Europe . . . . .	18,045	23,658	
Consolidated long-lived assets, net . . . . .	<u>\$110,257</u>	<u>\$117,455</u>	

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
(thousands, except share and per share amounts)

**(19) Quarterly Results of Operations (unaudited)**

	Three Months Ended							
	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
Revenue . . . . .	\$126,016	\$122,996	\$117,700	\$112,274	\$111,100	\$101,043	\$94,301	\$90,489
Costs of revenue . . . .	79,722	77,144	74,968	72,588	68,407	63,821	60,503	57,802
Gross profit . . . . .	46,294	45,852	42,732	39,686	42,693	37,222	33,798	32,687
Operating expenses . . .	31,816	31,233	30,491	28,456	30,182	26,026	24,022	23,758
Income from operations . . . . .	14,478	14,619	12,241	11,230	12,511	11,196	9,776	8,929
Other income . . . . .	1,221	1,360	1,257	994	1,116	1,155	105	1,136
Income before income tax expense . . . . .	15,699	15,979	13,498	12,224	13,627	12,351	9,881	10,065
Income tax expense . .	4,149	4,200	3,384	3,221	3,580	3,023	2,403	2,543
Net income . . . . .	\$ 11,550	\$ 11,779	\$ 10,114	\$ 9,003	\$ 10,047	\$ 9,328	\$ 7,478	\$ 7,522
Basic earnings per share . . . . .	\$ 0.40	\$ 0.41	\$ 0.35	\$ 0.32	\$ 0.36	\$ 0.36	\$ 0.29	\$ 0.30
Diluted earnings per share . . . . .	\$ 0.39	\$ 0.40	\$ 0.34	\$ 0.31	\$ 0.35	\$ 0.35	\$ 0.28	\$ 0.29

**(20) Subsequent Events**

On April 1, 2015, Virtusa Corporation (the “Company”) entered into a Stock Purchase Agreement (the “Stock Purchase Agreement”) by and among the Company, Apparatus, Inc. an Indiana corporation (“Apparatus”), the majority stockholder of Apparatus (“Major Stockholder”) and the other stockholders (collectively with the Major Stockholder, the “Sellers”), to acquire all of the issued and outstanding stock of Apparatus (the “Acquisition”). The Company also completed the Acquisition on April 1, 2015, and Apparatus is now a wholly-owned subsidiary of the Company.

Under the terms of the Stock Purchase Agreement, the purchase price for the Acquisition was approximately \$34,200 in cash, subject to post-closing working capital adjustments. The purchase price is also subject to adjustment after the closing by up to an additional \$1,700 in earn-out consideration to the Sellers, and an additional payment of approximately \$1,500 (“Bonus Pool”) in the form of variable cash compensation to certain Apparatus employees, in each case, in the event of Apparatus’ achievement at 100% of certain revenue and profit milestones for the fiscal year ending March 31, 2016. The Company deposited 8.5% of the purchase price into escrow for a period of 12 months as security for the Sellers’ indemnification obligations under the Stock Purchase Agreement. The Company, Sellers and Apparatus made customary representations, warranties and covenants in the Stock Purchase Agreement. The Stock Purchase Agreement also contains non-solicitation and non-competition provisions pursuant to which the Sellers agreed not to solicit any employee or affiliate or client of the Company and, in the case of the Major Stockholder, to also not engage in any competitive business or activities, in each case, for a period of three years after the date of closing of the transaction.

In connection with the Acquisition, the Company offered employment to all of Apparatus’ employees. In addition to the Bonus Pool, the Company has also agreed to issue an aggregate of up to \$3,500 in shares of restricted stock from the Company’s 2007 Stock Option and Incentive, not to exceed 93,333 shares, to certain Apparatus employees. The shares will vest annually over a four year period.

**Virtusa Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements (Continued)**  
**(thousands, except share and per share amounts)**

**(20) Subsequent Events (Continued)**

On April 24, 2015, the Company purchased multiple foreign currency forward contracts designed to hedge fluctuation in the U.K. pound sterling against the U.S. dollar. The contracts have an aggregate notional amount of approximately £2,961 (approximately \$4,470) and will expire on various dates through June 30, 2015. The weighted average U.S. dollar settlement rate associated with the U.K. pound sterling contracts is approximately \$1.51.

On May 7, 2015, the Company purchased multiple foreign currency forward contracts designed to hedge fluctuation in the Swedish Krona (“SEK”) against the U.S. dollar and the Euro (“EUR”) against the U.S. dollar (the “Euro contracts”), each of which will expire on various dates during the period ending June 30, 2015. The SEK contracts have an aggregate notional amount of approximately SEK 4,341 (approximately \$527) and the EUR contracts have an aggregate notional amount of approximately EUR 675 (approximately \$757). The weighted average U.S. dollar settlement rate associated with the SEK contracts is approximately \$0.121, and the weighted average U.S. dollar settlement rate associated with the EUR contracts is approximately \$1.121.

On May 7, 2015, the Company purchased multiple foreign currency forward contracts designed to hedge fluctuation in the Indian rupee against the U.S. dollar and U.K. pound sterling. The U.S. dollar contracts have an aggregate notional amount of approximately 884,253 Indian rupees (approximately \$12,824) and have an average settlement rate of 69.21 Indian rupees. The U.K. pound sterling contracts have an aggregate notional amount of approximately 662,388 Indian rupees (approximately £6,295) and have an average settlement rate of 105.44 Indian rupees. These contracts will expire at various dates during the 36 month period ending on March 31, 2018. The Company will be obligated to settle these contracts based upon the Reserve Bank of India published Indian rupee exchange rates. Based on the U.S. dollar to U.K. pound sterling spot rate on May 7, 2015 of \$1.52, the blended weighted average Indian rupee rate associated with both the U.S. dollar and U.K. pound sterling contracts would be approximately 69.05 Indian rupees per U.S. dollar.

On May 8, 2015, the Company purchased multiple foreign currency forward contracts designed to hedge fluctuation in the U.K. pound sterling against the U.S. dollar. The contracts have an aggregate notional amount of approximately £1,902 (approximately \$2,915) and will expire on various dates through June 30, 2015. The weighted average U.S. dollar settlement rate associated with the U.K. pound sterling contracts is approximately \$1.53.

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

**Item 9A. *Controls and Procedures.***

**(1) Evaluation of Disclosure Controls and Procedures**

We have carried out an evaluation, under the supervision and the participation of our management of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Securities Exchange Act), as of March 31, 2015. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of that period, our disclosure controls and procedures are effective in providing reasonable assurance that (a) the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (b) such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

**(2) Report of Management on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act as a process designed by, or under the supervision of, the issuers principal executive and principal financial officers or other persons performing similar functions and effected by the issuers board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the receipts and expenditures of the issuers are being made only in accordance with authorizations of the management and directors of the issuer; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of March 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework 1992.

Based on this assessment, our management has concluded that, as of March 31, 2015, our internal control over financial reporting was effective based on those criteria.

The effectiveness of our internal control over financial reporting as of March 31, 2015 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

**(3) Changes in Internal Controls over Financial Reporting**

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate annually the effectiveness of our internal controls over financial reporting as of the end of each fiscal year, and to include a management report assessing the effectiveness of our internal control over financial reporting in all annual reports. There were no changes in our internal control over financial reporting during the fiscal year ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. *Other Information.***

None.

### **PART III**

**Item 10. *Directors, Executive Officers and Corporate Governance.***

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement is expected to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended March 31, 2015.

**Item 11. *Executive Compensation.***

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement is expected to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended March 31, 2015.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement is expected to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended March 31, 2015.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence.***

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement is expected to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended March 31, 2015.

**Item 14. *Principal Accountant Fees and Services.***

The information required under this item is incorporated herein by reference to the Company's definitive proxy statement pursuant to Regulation 14A, which proxy statement is expected to be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended March 31, 2015.

## PART IV

### Item 15. *Exhibits and Financial Statement Schedules.*

The following are filed as part of this Annual Report on Form 10-K:

#### 1. Financial Statements

The following consolidated financial statements are included in Item 8:

Reports of Independent Registered Public Accounting Firm . . . . .	71
Consolidated Balance Sheets at March 31, 2015 and 2014 . . . . .	73
Consolidated Statements of Income for the Years Ended March 31, 2015, 2014 and 2013 . . . . .	74
Consolidated Statements of Comprehensive Income for the Years ended March 31, 2015, 2014 and 2013 . . . . .	75
Consolidated Statements of Changes in Stockholders' Equity for the Years ended March 31, 2015, 2014 and 2013 . . . . .	76
Consolidated Statements of Cash Flows for the Years Ended March 31, 2015, 2014 and 2013 . . . .	77
Notes to Consolidated Financial Statements . . . . .	78

#### 2. Financial Statement Schedules

The financial statement schedule entitled "Schedule II—Valuation and Qualifying Accounts" is filed as part of this Annual Report on Form 10-K under this Item 15.

All other schedules have been omitted since the required information is not present, or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements or the Notes thereto.

**Virtusa Corporation and Subsidiaries**  
**Schedule II—Valuation and Qualifying Accounts**  
**For the years ended March 31, 2015, 2014, and 2013**

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions/ Other</u>	<u>Balance at End of Period</u>
	(In thousands)			
Accounts receivable allowance for doubtful accounts:				
Year ended March 31, 2013 . . . . .	\$ 582	\$ 193	\$ (35)	\$ 740
Year ended March 31, 2014 . . . . .	\$ 740	\$ 539	\$(149)	\$1,130
Year ended March 31, 2015 . . . . .	\$1,130	\$(134)	\$(115)	\$ 881

### 3. Exhibits

The following exhibits are filed as part of and incorporated by reference into this Annual Report:

Exhibit No.	Exhibit Title
3.1	Amended and Restated By-laws of the Registrant (previously filed as Exhibit 3.2 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
3.2	Form of Seventh Amended and Restated Certificate of Incorporation of the Registrant (previously filed as Exhibit 3.3 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
4.1	Specimen certificate evidence shares of the Registrant's common stock (previously filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.1	Lease Agreement by and between the Registrant and W9/TIB Real Estate Limited Partnership, dated June 2000, as amended (previously filed as Exhibit 10.3 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.2	Third Amendment to Lease by and between the Registrant and Westborough Investors Limited Partnership dated as of March 31, 2010 (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed April 6, 2010, and incorporated herein by reference).
10.3+	Amended and Restated 2000 Stock Option Plan and forms of agreements thereunder (previously filed as Exhibit 10.4 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.4+	2005 Stock Appreciation Rights Plan and form of agreements thereunder (previously filed as Exhibit 10.5 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.5†	Master Service Provider Agreement by and between the Registrant and JPMorgan Chase Bank, N.A., dated as of December 6, 2004, as amended (previously filed as Exhibit 10.6 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.6	Amendment No. 236169, dated as of March 1, 2008 to the Master Service Provider Agreement by and between the Registrant and JPMorgan Chase Bank, N.A. (previously filed as Exhibit 10.6 to the Registrant's Annual Report on Form 10-K, filed May 29, 2009, and incorporated herein by reference).
10.7†	Amendment No. 3, dated as of January 1, 2009 to the Master Service Provider Agreement by and between the Registrant and JPMorgan Chase Bank, N.A. (previously filed as Exhibit 10.7 to the Registrant's Annual Report on Form 10-K, filed May 29, 2009, and incorporated herein by reference).
10.8†	Amendment—CW483516, dated as of March 29, 2012 to the Master Service Provider Agreement by and between the Registrant and JPMorgan Chase Bank, N.A. (previously filed as Exhibit 10.11 to the Registrant's Annual Report on Form 10-K, filed May 25, 2012 and incorporated herein by reference).

Exhibit No.	Exhibit Title
10.9†	Amendment—CW644410, dated as of March 19, 2014 to the Master Service Provider Agreement by and between the Registrant and JPMorgan Chase Bank, N.A. (previously filed as Exhibit 10.9 to the Registrant’s Annual Report on Form 10-K filed May 23, 2014 and incorporated herein by reference).
10.10+	Form of Indemnification Agreement between the Registrant and each of its directors (previously filed as Exhibit 10.7 to the Registrant’s Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.11†	Global Frame Contract by and between Virtusa UK Limited and British Telecommunications plc, dated as of January 31, 2012 (previously filed as Exhibit 10.16 to the Registrant’s Annual Report on Form 10-K, filed May 25, 2012, and incorporated herein by reference).
10.12†	Amendment No. 001, dated as of September 13, 2013 to the Global Frame Contract by and between Virtusa UK Limited and British Telecommunications plc. (previously filed as Exhibit 10.12 to the Registrant’s Annual Report on Form 10-K filed May 23, 2014 and incorporated herein by reference).
10.13+	Executive Agreement between the Registrant and Kris Canekaratne, dated as of April 5, 2007 (previously filed as Exhibit 10.10 to the Registrant’s Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.14+	Executive Agreement between the Registrant and Ranjan Kalia, dated as of July 15, 2009 (previously filed as Exhibit 10.3 to the Registrant’s Current Report on Form 8-K filed July 17, 2009 and incorporated herein by reference).
10.15+	Executive Agreement between the Registrant and Thomas R. Holler, dated as of April 5, 2007 (previously filed as Exhibit 10.12 to the Registrant’s Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.16+	Executive Agreement between the Registrant and Roger Keith Modder, dated as of April 5, 2007 (previously filed as Exhibit 10.13 to the Registrant’s Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.17+	Executive Agreement between the Registrant and Raj Rajgopal, dated as of July 15, 2009 (previously filed as Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed July 17, 2009 and incorporated herein by reference).
10.18+	Executive Agreement between the Registrant and Samir Dhir dated as of May 16, 2011 (previously filed as Exhibit 10.33 to the Registrant’s Annual Report on Form 10-K filed May 27, 2011 and incorporated herein by reference).
10.19	Co-Developer Agreement and Lease Deed between the Registrant and APIICL, a state government agency in India, dated as of March 2007 (previously filed as Exhibit 10.15 to the Registrant’s Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.20+	2007 Stock Option and Incentive Plan, including Form of Incentive Stock Option Agreement, Form of Non-Qualified Stock Option Agreement for Company Employees, Form of Non-Qualified Stock Option Agreement for Non-Employee Directors, and Form of Employee Restricted Stock Agreement (previously filed as Exhibit 10.15 to the Registrant’s Annual Report on Form 10-K, filed June 3, 2008, and incorporated herein by reference).

<b>Exhibit No.</b>	<b>Exhibit Title</b>
10.21+	Form of Deferred Stock Award Agreement under the 2007 Stock Option and Incentive Plan (previously filed as Exhibit 10.34 to the Registrant's Annual Report on Form 10-K filed May 27, 2011 and incorporated herein by reference).
10.22+	Amended and Restated Non-Employee Director Compensation Policy (previously filed as Exhibit 10.28 to the Registrant's Annual Report on Form 10-K, filed May 27, 2010, and incorporated herein by reference).
10.23	Lease Deed by and between DLF Assets Private Limited and Virtusa Software Services Pvt. Ltd. dated as of May 6, 2014. (previously filed as Exhibit 10.23 to the Registrant's Annual Report on Form 10-K filed May 23, 2014 and incorporated herein by reference).
10.24	LEASE DEED by and between Andhra Pradesh Industrial Infrastructure Corporation Limited and Virtusa (India) Private Limited dated as of August 22, 2007 (previously filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, filed September 7, 2007, and incorporated herein by reference).
10.25	Lease Deed by and between DLF Assets Private Limited and Virtusa Software Services, Inc. dated as of May 26, 2011 (previously filed as Exhibit 10.35 to the Registrant's Annual Report on Form 10-K filed May 27, 2011 and incorporated herein by reference).
10.26+	Virtusa Corporation Executive Variable Cash Compensation Plan (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed May 11, 2011, and incorporated herein by reference).
10.27	Amended and Restated Credit Agreement dated as of December 31, 2013 by and among Virtusa Corporation, its subsidiaries, InSource Holdings, Inc., InSource LLC and JPMorgan Chase Bank, N.A. ("Credit Agreement"), as Lender and Administrative Agent, including Exhibit A, Form of Assignment and Assumption Agreement, Exhibit B, Form of Compliance Certificate, Exhibit C, Form of Joinder Agreement, Exhibit D, Forms of U.S. Tax Compliance Certificates, and Exhibit E, Form of Borrowing Notice (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed January 6, 2014, and incorporated herein by reference).
10.28	Revolving Credit Note dated as of December 31, 2013 executed by Virtusa Corporation in favor of Lender (previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed January 6, 2014, and incorporated herein by reference).
10.29	Pledge and Security Agreement dated as of December 31, 2013, by and among Virtusa Corporation, its subsidiaries, InSource Holdings, Inc., InSource LLC and JPMorgan Chase Bank, N.A., in its capacity as administrative agent for the Lenders (previously filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K, filed January 6, 2014, and incorporated herein by reference).
10.30	Patent Security Agreement dated as of December 31, 2013 by Virtusa Corporation in favor of JPMorgan Chase Bank, N.A., in its capacity as administrative agent for the Lenders party to the Credit Agreement (previously filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K, filed January 6, 2014, and incorporated herein by reference).
10.31	Trademark Security Agreement dated as of December 31, 2013 by Virtusa Corporation in favor of JPMorgan Chase Bank, N.A., in its capacity as administrative agent for the Lenders party to the Credit Agreement (previously filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K, filed January 6, 2014, and incorporated herein by reference).

<b>Exhibit No.</b>	<b>Exhibit Title</b>
10.32	Fee Letter Agreement by and between Virtusa Corporation and JPMorgan Chase Bank, N.A. dated as of December 31, 2013 (previously filed as Exhibit 10.6 to the Registrant's Current Report on Form 8-K, filed January 6, 2014, and incorporated herein by reference).
10.33	Lease Deed by and between Virtusa India Private Limited and DLF Assets Private Limited dated as of September 29, 2012, (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 3, 2012, and incorporated herein by reference).
10.34	Lease Deed by and between Virtusa (Private) Limited and Orion Development (Private) Limited dated as of December 14, 2012, (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed January 9, 2013, and incorporated herein by reference).
10.35†	Professional Services Agreement by and between the Registrant and AIG Global Services, Inc., dated as of April 28, 2008 (previously filed as Exhibit 10.38 to Registrant's Annual Report on Form 10-K, filed May 29, 2013, and incorporated herein by reference).
10.36	Amendment No. 1, dated as of June 27, 2011, to the Professional Services Agreement by and between the Registrant and AIG Global Services, Inc. (previously filed as Exhibit 10.36 to the Registrant's Annual Report on Form 10-K filed May 23, 2014 and incorporated herein by reference).
10.37†	Amendment No. 2, dated as of January 28, 2014, to the Professional Services Agreement by and between the Registrant and AIG Global Services, Inc. (previously filed as Exhibit 10.37 to the Registrant's Annual Report on Form 10-K filed May 23, 2014 and incorporated herein by reference).
10.38	Asset Purchase Agreement by and among the Company, OSB Consulting, LLC., a New Jersey limited liability company, and the sole member thereof dated November 1, 2013 (previously filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed November 4, 2013, and incorporated herein by reference).
10.39	Share Purchase Agreement by and among Virtusa International B.V. and the shareholders of TradeTech Consulting Scandinavia AB listed on the signature pages thereto dated as of January 2, 2014 (previously filed as Exhibit 10.7 to the Registrant's Current Report on Form 8-K, filed January 6, 2014, and incorporated herein by reference).
10.40*	Amendment No. 010, dated as of April 24, 2015 to the Global Frame Contract by and between Virtusa UK Limited and British Telecommunications plc.
10.41+	Second Amended and Restated Non-Employee Director Compensation Policy, effective July 1, 2014 (previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q, filed August 5, 2014, and incorporated herein by reference).
10.42	Stock Purchase Agreement by and among Virtusa Corporation, Apparatus, Inc., an Indiana corporation, and Kelly Pfledderer and the other selling stockholder listed therein, dated as of April 1, 2015 (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed April 1, 2015, and incorporated herein by reference).
10.43*†	Master Professional Services Agreement for Application Development and Maintenance Services dated as of May 15, 2015 by and between AIG Procurement Services, Inc., and Virtusa Corporation.
10.44*	Amendment No. 1 to the Master Service Provider Agreement dated as of January 5, 2015 by and between JPMORGAN CHASE BANK, NATIONAL ASSOCIATION and the Registrant.
21.1*	Subsidiaries of Registrant.

Exhibit No.	Exhibit Title
23.1*	Consent of KPMG LLP.
24.1*	Power of Attorney (included on signature page).
31.1*	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of principal accounting and financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350.
32.2**	Certification of principal accounting and financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350.
101*	The following materials from the Registrant's Annual Report on Form 10-K for the year ended March 31, 2015 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) related notes to these financial statements.

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+ Indicates a management contract or compensation plan, contract or arrangement.

† Confidential treatment has been requested for certain provisions of this Exhibit.

\* Filed herewith.

\*\* Furnished herewith. This certification shall not be deemed filed for any purpose, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933, amended or the Exchange Act of 1934, as amended.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 20<sup>th</sup> day of May, 2015.

VIRTUSA CORPORATION

By: /s/ KRIS CANEKERATNE  
Kris Canekeratne  
*Chairman and Chief Executive Officer*  
*(Principal Executive Officer)*

Date: May 20, 2015

## POWER OF ATTORNEY AND SIGNATURES

We the undersigned officers and directors of Virtusa Corporation, hereby severally constitute and appoint Kris Canekeratne and Ranjan Kalia, and each of them singly, our true and lawful attorneys, with full power to them and each of them singly, to sign for us and in our names in the capacities indicated below, any amendments to this Annual Report on Form 10-K, and generally to do all things in our names and on our behalf in such capacities to enable Virtusa Corporation to comply with the provisions of the Securities Act of 1934, as amended, and all the requirements of the Securities Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 20<sup>th</sup> day of May, 2015.

<u>Signature</u>	<u>Title</u>
<u>/s/ KRIS CANEKERATNE</u> Kris Canekeratne	Chairman and Chief Executive Officer (Principal Executive Officer)
<u>/s/ RANJAN KALIA</u> Ranjan Kalia	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
<u>/s/ ROBERT E. DAVOLI</u> Robert E. Davoli	Director
<u>/s/ IZHAR ARMONY</u> Izhar Armony	Director
<u>/s/ RONALD T. MAHEU</u> Ronald T. Maheu	Director

<u>Signature</u>	<u>Title</u>
<div>/s/ MARTIN TRUST</div> <div>_____</div> <div>Martin Trust</div>	Director
<div>/s/ ROWLAND MORIARTY</div> <div>_____</div> <div>Rowland Moriarty</div>	Director
<div>/s/ WILLIAM K. O'BRIEN</div> <div>_____</div> <div>William K. O'Brien</div>	Director
<div>/s/ AL-NOOR RAMJI</div> <div>_____</div> <div>AL-Noor Ramji</div>	Director

## EXHIBIT INDEX

Exhibit No.	Exhibit Title
3.1	Amended and Restated By-laws of the Registrant (previously filed as Exhibit 3.2 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
3.2	Form of Seventh Amended and Restated Certificate of Incorporation of the Registrant (previously filed as Exhibit 3.3 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
4.1	Specimen certificate evidence shares of the Registrant's common stock (previously filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.1	Lease Agreement by and between the Registrant and W9/TIB Real Estate Limited Partnership, dated June 2000, as amended (previously filed as Exhibit 10.3 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.2	Third Amendment to Lease by and between the Registrant and Westborough Investors Limited Partnership dated as of March 31, 2010 (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed April 6, 2010, and incorporated herein by reference).
10.3+	Amended and Restated 2000 Stock Option Plan and forms of agreements thereunder (previously filed as Exhibit 10.4 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.4+	2005 Stock Appreciation Rights Plan and form of agreements thereunder (previously filed as Exhibit 10.5 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.5†	Master Service Provider Agreement by and between the Registrant and JPMorgan Chase Bank, N.A., dated as of December 6, 2004, as amended (previously filed as Exhibit 10.6 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.6	Amendment No. 236169, dated as of March 1, 2008 to the Master Service Provider Agreement by and between the Registrant and JPMorgan Chase Bank, N.A. (previously filed as Exhibit 10.6 to the Registrant's Annual Report on Form 10-K, filed May 29, 2009, and incorporated herein by reference).
10.7†	Amendment No. 3, dated as of January 1, 2009 to the Master Service Provider Agreement by and between the Registrant and JPMorgan Chase Bank, N.A. (previously filed as Exhibit 10.7 to the Registrant's Annual Report on Form 10-K, filed May 29, 2009, and incorporated herein by reference).
10.8†	Amendment—CW483516, dated as of March 29, 2012 to the Master Service Provider Agreement by and between the Registrant and JPMorgan Chase Bank, N.A. (previously filed as Exhibit 10.11 to the Registrant's Annual Report on Form 10-K, filed May 25, 2012 and incorporated herein by reference).

Exhibit No.	Exhibit Title
10.9†	Amendment—CW644410, dated as of March 19, 2014 to the Master Service Provider Agreement by and between the Registrant and JPMorgan Chase Bank, N.A. (previously filed as Exhibit 10.9 to the Registrant's Annual Report on Form 10-K filed May 23, 2014 and incorporated herein by reference).
10.10+	Form of Indemnification Agreement between the Registrant and each of its directors (previously filed as Exhibit 10.7 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.11†	Global Frame Contract by and between Virtusa UK Limited and British Telecommunications plc, dated as of January 31, 2012 (previously filed as Exhibit 10.16 to the Registrant's Annual Report on Form 10-K, filed May 25, 2012, and incorporated herein by reference).
10.12†	Amendment No. 001, dated as of September 13, 2013 to the Global Frame Contract by and between Virtusa UK Limited and British Telecommunications plc. (previously filed as Exhibit 10.12 to the Registrant's Annual Report on Form 10-K filed May 23, 2014 and incorporated herein by reference).
10.13+	Executive Agreement between the Registrant and Kris Canekaratne, dated as of April 5, 2007 (previously filed as Exhibit 10.10 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.14+	Executive Agreement between the Registrant and Ranjan Kalia, dated as of July 15, 2009 (previously filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed July 17, 2009 and incorporated herein by reference).
10.15+	Executive Agreement between the Registrant and Thomas R. Holler, dated as of April 5, 2007 (previously filed as Exhibit 10.12 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.16+	Executive Agreement between the Registrant and Roger Keith Modder, dated as of April 5, 2007 (previously filed as Exhibit 10.13 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.17+	Executive Agreement between the Registrant and Raj Rajgopal, dated as of July 15, 2009 (previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed July 17, 2009 and incorporated herein by reference).
10.18+	Executive Agreement between the Registrant and Samir Dhir dated as of May 16, 2011 (previously filed as Exhibit 10.33 to the Registrant's Annual Report on Form 10-K filed May 27, 2011 and incorporated herein by reference).
10.19	Co-Developer Agreement and Lease Deed between the Registrant and APIICL, a state government agency in India, dated as of March 2007 (previously filed as Exhibit 10.15 to the Registrant's Registration Statement on Form S-1, as amended (Registration No. 333-141952) and incorporated herein by reference).
10.20+	2007 Stock Option and Incentive Plan, including Form of Incentive Stock Option Agreement, Form of Non-Qualified Stock Option Agreement for Company Employees, Form of Non-Qualified Stock Option Agreement for Non-Employee Directors, and Form of Employee Restricted Stock Agreement (previously filed as Exhibit 10.15 to the Registrant's Annual Report on Form 10-K, filed June 3, 2008, and incorporated herein by reference).

<b>Exhibit No.</b>	<b>Exhibit Title</b>
10.21+	Form of Deferred Stock Award Agreement under the 2007 Stock Option and Incentive Plan (previously filed as Exhibit 10.34 to the Registrant's Annual Report on Form 10-K filed May 27, 2011 and incorporated herein by reference).
10.22+	Amended and Restated Non-Employee Director Compensation Policy (previously filed as Exhibit 10.28 to the Registrant's Annual Report on Form 10-K, filed May 27, 2010, and incorporated herein by reference).
10.23	Lease Deed by and between DLF Assets Private Limited and Virtusa Software Services Pvt. Ltd. dated as of May 6, 2014. (previously filed as Exhibit 10.23 to the Registrant's Annual Report on Form 10-K filed May 23, 2014 and incorporated herein by reference).
10.24	LEASE DEED by and between Andhra Pradesh Industrial Infrastructure Corporation Limited and Virtusa (India) Private Limited dated as of August 22, 2007 (previously filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, filed September 7, 2007, and incorporated herein by reference).
10.25	Lease Deed by and between DLF Assets Private Limited and Virtusa Software Services, Inc. dated as of May 26, 2011 (previously filed as Exhibit 10.35 to the Registrant's Annual Report on Form 10-K filed May 27, 2011 and incorporated herein by reference).
10.26+	Virtusa Corporation Executive Variable Cash Compensation Plan (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed May 11, 2011, and incorporated herein by reference).
10.27	Amended and Restated Credit Agreement dated as of December 31, 2013 by and among Virtusa Corporation, its subsidiaries, InSource Holdings, Inc., InSource LLC and JPMorgan Chase Bank, N.A. ("Credit Agreement"), as Lender and Administrative Agent, including Exhibit A, Form of Assignment and Assumption Agreement, Exhibit B, Form of Compliance Certificate, Exhibit C, Form of Joinder Agreement, Exhibit D, Forms of U.S. Tax Compliance Certificates, and Exhibit E, Form of Borrowing Notice (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed January 6, 2014, and incorporated herein by reference).
10.28	Revolving Credit Note dated as of December 31, 2013 executed by Virtusa Corporation in favor of Lender (previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed January 6, 2014, and incorporated herein by reference).
10.29	Pledge and Security Agreement dated as of December 31, 2013, by and among Virtusa Corporation, its subsidiaries, InSource Holdings, Inc., InSource LLC and JPMorgan Chase Bank, N.A., in its capacity as administrative agent for the Lenders (previously filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K, filed January 6, 2014, and incorporated herein by reference).
10.30	Patent Security Agreement dated as of December 31, 2013 by Virtusa Corporation in favor of JPMorgan Chase Bank, N.A., in its capacity as administrative agent for the Lenders party to the Credit Agreement (previously filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K, filed January 6, 2014, and incorporated herein by reference).
10.31	Trademark Security Agreement dated as of December 31, 2013 by Virtusa Corporation in favor of JPMorgan Chase Bank, N.A., in its capacity as administrative agent for the Lenders party to the Credit Agreement (previously filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K, filed January 6, 2014, and incorporated herein by reference).

<b>Exhibit No.</b>	<b>Exhibit Title</b>
10.32	Fee Letter Agreement by and between Virtusa Corporation and JPMorgan Chase Bank, N.A. dated as of December 31, 2013 (previously filed as Exhibit 10.6 to the Registrant's Current Report on Form 8-K, filed January 6, 2014, and incorporated herein by reference).
10.33	Lease Deed by and between Virtusa India Private Limited and DLF Assets Private Limited dated as of September 29, 2012, (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 3, 2012, and incorporated herein by reference).
10.34	Lease Deed by and between Virtusa (Private) Limited and Orion Development (Private) Limited dated as of December 14, 2012, (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed January 9, 2013, and incorporated herein by reference).
10.35†	Professional Services Agreement by and between the Registrant and AIG Global Services, Inc., dated as of April 28, 2008 (previously filed as Exhibit 10.38 to Registrant's Annual Report on Form 10-K, filed May 29, 2013, and incorporated herein by reference).
10.36	Amendment No. 1, dated as of June 27, 2011, to the Professional Services Agreement by and between the Registrant and AIG Global Services, Inc. (previously filed as Exhibit 10.36 to the Registrant's Annual Report on Form 10-K filed May 23, 2014 and incorporated herein by reference).
10.37†	Amendment No. 2, dated as of January 28, 2014, to the Professional Services Agreement by and between the Registrant and AIG Global Services, Inc. (previously filed as Exhibit 10.37 to the Registrant's Annual Report on Form 10-K filed May 23, 2014 and incorporated herein by reference).
10.38	Asset Purchase Agreement by and among the Company, OSB Consulting, LLC., a New Jersey limited liability company, and the sole member thereof dated November 1, 2013 (previously filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed November 4, 2013, and incorporated herein by reference).
10.39	Share Purchase Agreement by and among Virtusa International B.V. and the shareholders of TradeTech Consulting Scandinavia AB listed on the signature pages thereto dated as of January 2, 2014 (previously filed as Exhibit 10.7 to the Registrant's Current Report on Form 8-K, filed January 6, 2014, and incorporated herein by reference).
10.40*	Amendment No. 010, dated as of April 24, 2015 to the Global Frame Contract by and between Virtusa UK Limited and British Telecommunications plc.
10.41+	Second Amended and Restated Director Compensation Policy, effective July 1, 2014 (previously filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q, filed August 5, 2014, and incorporated herein by reference).
10.42	Stock Purchase Agreement by and among Virtusa Corporation, Apparatus, Inc., an Indiana corporation, and Kelly Pfladderer and the other selling stockholder listed therein, dated as of April 1, 2015 (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed April 1, 2015, and incorporated herein by reference).
10.43*†	Master Professional Services Agreement for Application Development and Maintenance Services dated as of May 15, 2015 by and between AIG Procurement Services, Inc., and Virtusa Corporation.
10.44*	Amendment No. 1 to the Master Service Provider Agreement dated as of January 5, 2015 by and between JPMORGAN CHASE BANK, NATIONAL ASSOCIATION and the Registrant.
21.1*	Subsidiaries of Registrant.

Exhibit No.	Exhibit Title
23.1*	Consent of KPMG LLP.
24.1*	Power of Attorney (included on signature page).
31.1*	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of principal accounting and financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350.
32.2**	Certification of principal accounting and financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350.
101*	The following materials from the Registrant's Annual Report on Form 10-K for the year ended March 31, 2015 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) related notes to these financial statements.

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+ Indicates a management contract or compensation plan, contract or arrangement.

† Confidential treatment has been requested for certain provisions of this Exhibit.

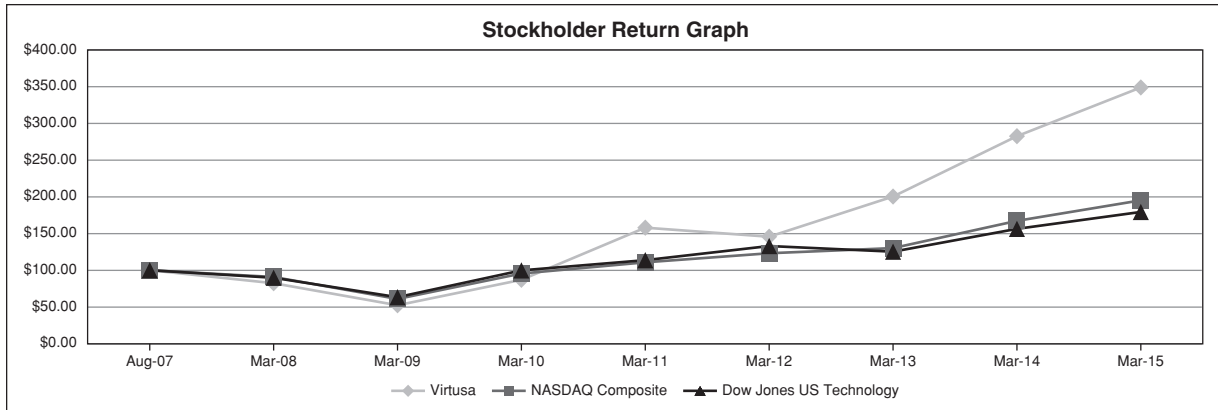
\* Filed herewith.

\*\* Furnished herewith. This certification shall not be deemed filed for any purpose, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933, amended or the Exchange Act of 1934, as amended.

# NOTES

### Stock price performance presentation

The following graph (“Stockholder Return Graph”) compares the cumulative total stockholder return on our common stock with the cumulative total return on the (i) NASDAQ Composite Index and (ii) Dow Jones US Technology Index (“DJTI”) for the period beginning August 3, 2007 and ending on March 31, 2015. The comparison assumes the investment of \$100 on August 3, 2007 in our common stock and in each of the comparison indices, and in each case, assumes reinvestment of all dividends.



At March 31, 2015, there were approximately 29,626,486 shares of our common stock outstanding held by approximately 156 stockholders of record and the last reported sale price of our common stock on the NASDAQ Global Select Stock Market on March 31, 2015 was \$41.38 per share.

# Corporate Information

## Primary Investor Contact

Staci Mortenson or Kori Doherty  
Integrated Corporate Relations (ICR)  
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Toll free number: 866 378 6929 \*7272  
E-mail: InvestorRelations@virtusa.com

## Transfer Agent

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Tel: 303 262 0600

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Corporate Website:  
<http://www.kpmg.com>

## Legal

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Boston, MA 02109-2881

## Board of Directors

Kris Canekaratne,  
*Chairman and Chief Executive Officer*  
Robert E. Davoli  
Izhar Armony  
Ronald T. Maheu  
Martin Trust  
Rowland T. Moriarty  
William K. O'Brien  
Al-Noor Ramji

## Executive Officers

Kris Canekaratne,  
Chairman and Chief Executive Officer

Thomas Holler,  
Executive Vice President,  
Chief Strategy Officer

Keith Modder,  
Executive Vice President,  
Chief Operating Officer

Raj Rajgopal,  
President

Ranjan Kalra,  
Executive Vice President, Finance,  
Chief Financial Officer, Secretary  
and Treasurer

Samir Dhir,  
Executive Vice President, Chief Delivery  
Officer and Head of India Operations

## United States

### Corporate Headquarters

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## India

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Facsimile: +91 44 3927 7800

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### Advanced Technology Centers

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