

Genpact LTD
Form 10-Q
August 09, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period ended June 30, 2011

Or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from to

Commission file number: 001-33626

GENPACT LIMITED

(Exact name of registrant as specified in its charter)

Edgar Filing: Genpact LTD - Form 10-Q

Bermuda
(State or other jurisdiction of
incorporation or organization)

98-0533350
(I.R.S. Employer
Identification No.)

Canon s Court
22 Victoria Street
Hamilton HM
Bermuda
(441) 295-2244

(Address, including zip code, and telephone number, including area code, of registrant s principal executive office)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of accelerated filer, large 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 number of the registrant s common shares, par value \$0.01 per share, outstanding as of July 29, 2011 was 221,694,444.

Table of Contents

TABLE OF CONTENTS

Item No.		Page No.
PART I	Financial Statements	
1.	Unaudited Consolidated Financial Statements	
	<u>Consolidated Balance Sheets as of December 31, 2010 and June 30, 2011</u>	1
	<u>Consolidated Statements of Income for the three months and six months ended June 30, 2010 and 2011</u>	3
	<u>Consolidated Statements of Equity and Comprehensive Income (Loss) for the six months ended June 30, 2010 and 2011</u>	4
	<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2011</u>	6
	<u>Notes to the Consolidated Financial Statements</u>	7
2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	47
4.	<u>Controls and Procedures</u>	47
PART II	Other Information	
1.	<u>Legal Proceedings</u>	48
1A.	<u>Risk Factors</u>	48
2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
3.	<u>Defaults upon Senior Securities</u>	48
5.	<u>Other Information</u>	49
6.	<u>Exhibits</u>	
	<u>SIGNATURES</u>	51

Table of Contents**Item 1. Financial Statements****GENPACT LIMITED AND ITS SUBSIDIARIES****Consolidated Balance Sheets****(Unaudited)****(In thousands, except per share data)**

	Notes	As of December 31, 2010	June 30, 2011
Assets			
<i>Current assets</i>			
Cash and cash equivalents	4	\$ 404,034	\$ 336,402
Short term investments	5	76,985	
Accounts receivable, net	6	174,654	246,911
Accounts receivable from related party, net	6, 21	131,271	141,715
Deferred tax assets	20	21,985	20,091
Due from related party	21	3	4,024
Prepaid expenses and other current assets		126,848	186,676
Total current assets		\$ 935,780	\$ 935,819
Property, plant and equipment, net	9	197,166	193,795
Deferred tax assets	20	35,099	51,474
Investment in equity affiliates	21	1,913	1,652
Customer-related intangible assets, net	10	33,296	94,258
Marketing-related intangible assets, net	10		21,457
Other intangible assets, net	10	51	1,311
Goodwill	10	570,153	974,991
Other assets		120,003	128,616
Total assets		\$ 1,893,461	\$ 2,403,373

See accompanying notes to the Consolidated Financial Statements.

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Consolidated Balance Sheets****(Unaudited)****(In thousands, except per share data)**

	Notes	As of December 31, 2010	As of June 30, 2011
Liabilities and equity			
<i>Current liabilities</i>			
Short-term borrowings	14	\$	\$ 252,000
Current portion of long-term debt	15	24,950	28,842
Current portion of capital lease obligations		702	1,124
Current portion of capital lease obligations payable to related party	21	1,188	1,071
Accounts payable		12,206	9,807
Income taxes payable	20	8,064	35,069
Deferred tax liabilities	20	489	14,248
Due to related party	21	4,030	3,102
Accrued expenses and other current liabilities		270,919	247,888
Total current liabilities		\$ 322,548	\$ 593,151
Long-term debt, less current portion	15		88,459
Capital lease obligations, less current portion		741	754
Capital lease obligations payable to related party, less current portion		1,748	1,224
Deferred tax liabilities	20	2,953	1,796
Due to related party	21	10,683	14,851
Other liabilities		73,546	73,040
Total liabilities		\$ 412,219	\$ 773,275
Shareholders equity			
Preferred shares, \$0.01 par value, 250,000,000 authorized, none issued			
Common shares, \$0.01 par value, 500,000,000 authorized, 220,916,960 and 221,557,465 issued and outstanding as of December 31, 2010 and June 30, 2011, respectively		2,208	2,214
Additional paid-in capital		1,105,610	1,120,153
Retained earnings		421,092	496,221
Accumulated other comprehensive income (loss)		(50,238)	8,407
Genpact Limited shareholders equity		\$ 1,478,672	\$ 1,626,995
Noncontrolling interest		2,570	3,103
Total equity		\$ 1,481,242	\$ 1,630,098
Commitments and contingencies			
Total liabilities and equity		\$ 1,893,461	\$ 2,403,373

See accompanying notes to the Consolidated Financial Statements.

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Consolidated Statements of Income****(Unaudited)****(In thousands, except per share data)**

	Notes	Three months ended June 30,		Six months ended June 30,	
		2010	2011	2010	2011
Net revenues					
Net revenues from services - related party	21	\$ 117,914	\$ 122,783	\$ 231,252	\$ 235,744
Net revenues from services - others		189,713	274,840	364,594	492,432
Total net revenues		307,627	397,623	595,846	728,176
Cost of revenue					
Services	16, 21	191,101	254,030	367,786	468,517
Total cost of revenue		191,101	254,030	367,786	468,517
Gross profit		\$ 116,526	\$ 143,593	\$ 228,060	\$ 259,659
<i>Operating expenses:</i>					
Selling, general and administrative expenses	17, 21	75,277	86,724	148,168	154,165
Amortization of acquired intangible assets	10	4,065	5,140	8,284	8,217
Other operating (income) expense, net	18, 21	(1,111)	665	(3,941)	(291)
Income from operations		\$ 38,295	\$ 51,064	\$ 75,549	\$ 97,568
Foreign exchange (gains) losses, net		4,855	(1,130)	5,586	(2,697)
Other income (expense), net	19, 21	844	3,026	2,114	6,124
Income before share of equity in loss of affiliates and income tax expense		\$ 34,284	\$ 55,220	\$ 72,077	\$ 106,389
Equity in loss of affiliates		272	134	605	267
Income before income tax expense		\$ 34,012	\$ 55,086	\$ 71,472	\$ 106,122
Income tax expense	20	4,865	14,357	12,082	27,479
Net Income		\$ 29,147	\$ 40,729	\$ 59,390	\$ 78,643
Net income attributable to noncontrolling interest		1,300	1,720	3,369	3,514
Net income attributable to Genpact Limited shareholders		\$ 27,847	\$ 39,009	\$ 56,021	\$ 75,129
Net income available to Genpact Limited common shareholders	13	\$ 27,847	\$ 39,009	\$ 56,021	\$ 75,129
Earnings per common share attributable to Genpact Limited common shareholders	13				
Basic		\$ 0.13	\$ 0.18	\$ 0.26	\$ 0.34
Diluted		\$ 0.12	\$ 0.17	\$ 0.25	\$ 0.33

Edgar Filing: Genpact LTD - Form 10-Q

Weighted average number of common shares used in computing earnings per common share attributable to Genpact Limited common shareholders

Basic	218,955,223	221,297,842	218,455,684	221,153,301
Diluted	224,947,174	226,146,388	224,459,617	225,844,839

See accompanying notes to the Consolidated Financial Statements.

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Consolidated Statements of Equity and Comprehensive Income (Loss)****(Unaudited)****(In thousands, except share data)**

	Genpact Limited Shareholders				Accumulated Other Comprehensive Income (loss)	Non controlling interest	Total Equity
	Common shares		Additional Paid-in Capital	Retained Earnings			
	No. of Shares	Amount					
Balance as of January 1, 2010	217,433,091	\$ 2,174	\$ 1,063,304	\$ 278,911	\$ (146,993)	\$ 2,351	\$ 1,199,747
Issuance of common shares on exercise of options (Note 12)	1,867,490	19	11,443				11,462
Issuance of common shares under the employee share purchase plan (Note 12)	20,648		297				297
Noncontrolling interest on business acquisition						502	502
Distribution to noncontrolling interest						(3,488)	(3,488)
Stock-based compensation expense (Note 12)			10,285				10,285
Comprehensive income:							
Net income				56,021		3,369	59,390
Other comprehensive income:							
Net unrealized income (loss) on cash flow hedging derivatives, net of taxes					10,618		10,618
Net unrealized gain (loss) on investment in U.S. treasury bills					210		210
Currency translation adjustments					(4,864)	(377)	(5,241)
Comprehensive income (loss)							\$ 64,977
Balance as of June 30, 2010	219,321,229	\$ 2,193	\$ 1,085,329	\$ 334,932	\$ (141,029)	\$ 2,357	\$ 1,283,782

See accompanying notes to the Consolidated Financial Statements.

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Consolidated Statements of Equity and Comprehensive Income (Loss)****(Unaudited)****(In thousands, except share data)**

	Genpact Limited Shareholders				Accumulated Other Comprehensive Income (loss)	Non controlling interest	Total Equity
	Common shares		Additional Paid-in Capital	Retained Earnings			
	No. of shares	Amount					
Balance as of January 1, 2011	220,916,960	\$ 2,208	\$ 1,105,610	\$ 421,092	\$ (50,238)	\$ 2,570	\$ 1,481,242
Issuance of common shares on exercise of options (Note 12)	529,426	5	5,667				5,672
Issuance of common shares under the employee share purchase plan (Note 12)	23,579		318				318
Issuance of common shares on vesting of restricted share units (Note 12)	87,500	1	(1)				
Distribution to noncontrolling interest						(3,196)	(3,196)
Stock-based compensation expense (Note 12)			8,559				8,559
Comprehensive income:							
Net income				75,129		3,514	78,643
Other comprehensive income:							
Net unrealized income (loss) on cash flow hedging derivatives, net of taxes					37,601		37,601
Net unrealized gain (loss) on investment in U.S. treasury bills					(11)		(11)
Currency translation adjustments					21,055	215	21,270
Comprehensive income (loss)							\$ 137,503
Balance as of June 30, 2011	221,557,465	\$ 2,214	\$ 1,120,153	\$ 496,221	\$ 8,407	\$ 3,103	\$ 1,630,098

See accompanying notes to the Consolidated Financial Statements.

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Consolidated Statements of Cash Flows****(Unaudited)****(In thousands)**

	Six months ended June 30,	
	2010	2011
Operating activities		
Net income attributable to Genpact Limited shareholders	\$ 56,021	\$ 75,129
Net income attributable to noncontrolling interest	3,369	3,514
Net income	\$ 59,390	\$ 78,643
<i>Adjustments to reconcile net income to net cash provided by (used for) operating activities:</i>		
Depreciation and amortization	28,760	29,005
Amortization of debt issue costs	219	554
Amortization of acquired intangible assets	8,449	8,300
Provision (release) for doubtful receivables	(1,711)	1,853
Gain on business acquisition	(247)	
Unrealized (gain) loss on revaluation of foreign currency asset/liability	1,871	(45)
Equity in loss of affiliates	605	267
Stock-based compensation expense	10,285	8,559
Deferred income taxes	(5,315)	(2,579)
Others, net	168	1,400
<i>Change in operating assets and liabilities:</i>		
Increase in accounts receivable	(35,291)	(24,647)
Increase in other assets	(28,693)	(33,122)
Decrease in accounts payable	(2,102)	(2,374)
Decrease in accrued expenses and other current liabilities	(43,876)	(13,506)
Increase in income taxes payable	15,188	24,092
Increase in other liabilities	2,262	5,632
Net cash provided by operating activities	\$ 9,962	\$ 82,032
Investing activities		
Purchase of property, plant and equipment	(36,909)	(12,106)
Proceeds from sale of property, plant and equipment	590	479
Investment in affiliates	(2,324)	
Purchase of short term investments	(42,997)	(129,458)
Proceeds from sale of short term investments	132,601	206,443
Short term deposits placed with related party	(6,507)	
Redemption of short term deposits with related party	16,269	
Payment for business acquisitions, net of cash acquired	(42,575)	(561,075)
Net cash provided by (used for) investing activities	\$ 18,148	\$ (495,717)
Financing activities		
Repayment of capital lease obligations	(2,697)	(1,500)
Proceeds from long-term debt		120,000
Repayment of long-term debt	(20,000)	(25,000)
Short-term borrowings, net	(184)	252,000

Edgar Filing: Genpact LTD - Form 10-Q

Proceeds from issuance of common shares under stock based compensation plans	11,759	5,989
Direct cost incurred in relation to Debt		(8,315)
Distribution to noncontrolling interest	(3,488)	(3,196)
Net cash provided by (used for) financing activities	\$ (14,610)	\$ 339,978
Effect of exchange rate changes	6,522	6,075
Net increase (decrease) in cash and cash equivalents	13,500	(73,707)
Cash and cash equivalents at the beginning of the period	288,734	404,034
Cash and cash equivalents at the end of the period	\$ 308,756	\$ 336,402
Supplementary information		
Cash paid during the period for interest	\$ 927	\$ 1,509
Cash paid during the period for income taxes	\$ 19,583	\$ 23,498
Property, plant and equipment acquired under capital lease obligation	\$ 711	\$ 758
See accompanying notes to the Consolidated Financial Statements.		

Table of Contents

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data)

1. Organization

(a) Nature of Operations

The Company is a global leader in business process and technology management. The Company combines its process expertise, information technology expertise and analytical capabilities, together with operational insight derived from its experience in diverse industries, to provide a wide range of services using its global delivery platform. The Company's service offerings include finance and accounting, collections and customer service, insurance services, supply chain and procurement, analytics, enterprise application services, business consulting, domain consulting and IT infrastructure services. The Company delivers services from a global network of approximately 45 locations in fourteen countries. The Company's service delivery locations, referred to as Delivery Centers, are in India, the United States (U.S.), China, Mexico, Romania, The Netherlands, Hungary, The Philippines, Spain, Poland, Guatemala, South Africa, Japan and Morocco.

(b) Secondary Offering

On March 24, 2010, the Company completed a secondary offering of its common shares by certain of its shareholders that was priced at \$15 per share. The offering consisted of 38,640,000 common shares, which included the underwriters exercise of their option to purchase an additional 5,040,000 common shares from the Company's shareholders at the offering price of \$15 per share to cover over-allotments. All of the common shares were sold by shareholders of the Company and, as a result, the Company did not receive any of the proceeds from the offering. The Company incurred expenses in connection with the secondary offering of approximately \$591 included under other income (expense), net in the Consolidated Statements of Income for the year 2010. Upon the completion of the secondary offering, the General Electric Company's (GE) shareholding in the Company decreased to 9.1% and it ceased to be a significant shareholder although it continues to be a related party in accordance with the provisions of Regulation S-X Rule 1-02(s).

2. Summary of significant accounting policies

(a) Basis of preparation and principles of consolidation

The unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. Accordingly, they do not include certain information and footnote disclosures required by generally accepted accounting principles for annual financial reporting and should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

The unaudited interim consolidated financial statements reflect all adjustments that management considers necessary for a fair presentation of the results of operations for these periods. The results of operations for the interim periods are not necessarily indicative of the results for the full year.

The accompanying unaudited interim consolidated financial statements have been prepared on a consolidated basis and reflect the financial statements of Genpact Limited and all of its subsidiaries that are more than 50% owned and controlled, and variable interest entities in which we are the primary beneficiary. When the Company does not have a controlling interest in an entity, but exerts a significant influence on the entity, the Company applies the equity method of accounting. All inter-company transactions and balances are eliminated in consolidation.

The noncontrolling interest disclosed in the accompanying unaudited interim consolidated financial statements represents the noncontrolling partners' interest in the operation of Genpact Netherlands B.V. and noncontrolling shareholders' interest in the operation of Hello Communications (Shanghai) Co., Ltd. and the profits or losses associated with the noncontrolling interest in those operations. The noncontrolling partners of Genpact Netherlands B.V. are individually liable for the tax obligations on their share of profit as it is a partnership and, accordingly, noncontrolling interest relating to Genpact Netherlands B.V. has been computed prior to tax and disclosed accordingly in the

Edgar Filing: Genpact LTD - Form 10-Q

unaudited interim Consolidated Statements of Income.

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****2. Summary of significant accounting policies (Continued)***(b) Use of estimates*

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Significant items subject to such estimates and assumptions include the useful lives of property, plant and equipment, the carrying amount of property, plant and equipment, intangibles and goodwill, the provision for doubtful receivables and the valuation allowance for deferred tax assets, the valuation of derivative financial instruments, the measurements of stock-based compensation, assets and obligations related to employee benefits, income tax uncertainties and other contingencies. Management believes that the estimates used in the preparation of the consolidated financial statements are reasonable. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates. Any changes in estimates are adjusted prospectively in the consolidated financial statements.

(c) Business combinations, goodwill and other intangible assets

The Company accounts for its business combinations by recognizing the identifiable tangible and intangible assets and liabilities assumed, and any noncontrolling interest in the acquired business, measured at their acquisition date fair values. All assets and liabilities of the acquired businesses, including goodwill, are assigned to reporting units.

Goodwill represents the cost of the acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased. Goodwill is not amortized but is tested for impairment at least on an annual basis on December 31, based on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying value of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Goodwill of a reporting unit will be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

Intangible assets acquired individually or with a group of other assets or in a business combination are carried at cost less accumulated amortization based on their estimated useful lives as follows:

Customer-related intangible assets	1-11 years
Marketing-related intangible assets	1-10 years
Contract-related intangible assets	1 year
Other intangible assets	3-8 years

Intangible assets are amortized over their estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise realized.

In business combinations, where the fair value of identifiable tangible and intangible net assets purchased exceeds the cost of the acquired business, the Company recognizes the resulting gain under Other operating (income) expense, net in the Consolidated Statements of Income on the acquisition date.

Table of Contents

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data)

2. Summary of significant accounting policies (Continued)

(d) Financial instruments and concentration of credit risk

Financial instruments that potentially subject the Company to concentration of credit risk are reflected principally in cash and cash equivalents, short term investments, short term deposits, derivative financial instruments and accounts receivable. The Company places its cash and cash equivalents and derivative financial instruments with corporations and banks with high investment grade ratings, limits the amount of credit exposure with any one corporation or bank and conducts ongoing evaluation of the credit worthiness of the corporations and banks with which it does business. Short term deposits are with GE, a related party, and short term investments are with other financial institutions. To reduce its credit risk on accounts receivable, the Company performs an ongoing credit evaluation of customers. GE accounted for 43% and 36% of receivables as of December 31, 2010 and June 30, 2011, respectively. GE accounted for 39% and 32% of revenues for the six months ended June 30, 2010 and 2011, respectively, and for 38% and 31% of revenues for the three months ended June 30, 2010 and 2011, respectively.

(e) Recently adopted accounting pronouncements

The authoritative bodies release standards and guidance which are assessed by management for impact on the Company's consolidated financial statements.

The following recently released accounting standards have been adopted by the Company and certain disclosures in the consolidated financial statements and footnotes to the consolidated financial statements have been modified. Adoption of these standards did not impact the consolidated financial results as they are disclosure-only in nature:

In December 2010, FASB issued ASU 2010-29 which states that a public entity is required to disclose pro forma information for material business combinations (on an individual or aggregate basis) that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. The amendments in this update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Effective January 1, 2011, the Company adopted ASU 2010-29.

In January 2010, the FASB issued ASU 2010-06 which amends ASC 820, *Fair Value Measurements and Disclosures*. The ASU requires the reporting entities to make new disclosures about recurring and non recurring fair value measurements. This included disclosure regarding significant transfers into and out of Level 1 and Level 2 fair value measurements in the fair value hierarchy as well as the reasons for the transfer. The ASU also requires a separate disclosure for the purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. The FASB further clarified the existing fair-value measurement disclosure guidance about the level of disaggregation, requiring the entities to disclose the fair value measurements by Class instead of major category, as well as requiring disclosure for the inputs, and valuation techniques used by the entities for the purpose of fair value measurement using significant observable inputs (Level 2) or significant unobservable inputs (Level 3). The provisions of the ASU 2010-06 were effective for

Edgar Filing: Genpact LTD - Form 10-Q

annual and interim reporting periods beginning after December 15, 2009, except for the disclosure for the purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements, which were effective for interim and annual reporting periods beginning after December 15, 2010. Effective January 1, 2010, the Company adopted ASU 2010-06.

Table of Contents

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data)

2. Summary of significant accounting policies (Continued)

The following recently released accounting standards have been adopted by the Company without material impact on the Company's consolidated results of operations, cash flows, financial position or disclosures:

In December 2010, FASB issued ASU 2010-28 which states that for an entity with reporting units having zero or negative carrying amounts, the second step of the impairment test shall be performed to measure the amount of impairment loss, if any, when it is more likely than not that a goodwill impairment exists. In considering whether it is more likely than not that a goodwill impairment exists, an entity shall evaluate whether there are adverse qualitative factors. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Effective January 1, 2011, the Company has adopted ASU 2010-28.

In April 2010, FASB issued ASU 2010-13 which states that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, such an award should not be classified as a liability based only on this condition if it otherwise qualifies as equity. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. Effective January 1, 2011, the Company has adopted ASU 2010-13.

In October 2009, FASB issued ASU 2009-13 which amended revenue recognition guidance for arrangements with multiple deliverables. The new guidance eliminated the requirement that all undelivered elements have Vendor Specific Objective Evidence (VSOE) or Third Party Evidence (TPE) before an entity can recognize the portion of an overall arrangement fee that is attributable to items that already have been delivered. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, the overall arrangement fee will be allocated to each element (both delivered and undelivered items) based on their relative estimated selling prices.

Application of the residual method of allocating an overall arrangement fee between delivered and undelivered elements will no longer be permitted upon adoption of this new FASB guidance. The provisions of this FASB guidance will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company early adopted ASU 2009-13, effective January 1, 2010.

(f) Reclassification

Certain reclassifications have been made in the consolidated financial statements of prior periods to conform to the classification used in the current period.

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****3. Business acquisitions****(a) Headstrong Corporation**

On May 3, 2011, the Company acquired 100% of the outstanding common shares of Headstrong Corporation, a Delaware corporation (Headstrong), for \$550,000 in cash subject to adjustment based on closing date net working capital, funded indebtedness, seller expenses and amount of cash and cash equivalents. The total preliminary estimated purchase price of the acquisition, net of \$25,845 of cash acquired and including \$19,205 seller expense liability assumed, is \$558,455. There are no contingent consideration arrangements in connection with the acquisition. As per the terms of the acquisition agreement with sellers, the preliminary estimated purchase consideration is comprised of the following:

Enterprise value	\$ 550,000
Estimated net working capital adjustment	8,455
Cash and cash equivalents	25,845
Funded indebtedness	
Seller expenses liability	(19,205)
<i>Total preliminary estimated purchase price</i>	<i>\$ 565,095</i>

As of the date of the financial statements, the purchase consideration for the acquisition is pending finalization for closing working capital adjustment and seller expenses. The total amount paid by the Company, net of \$25,845 of cash acquired, as on the balance sheet date is \$559,512 (including \$19,205 of seller expenses). As a result, an amount of \$1,057 representing excess of cash paid over preliminary estimated purchase consideration has been accounted for as an amount recoverable from sellers and has been disclosed under other current assets in the Consolidated Balance Sheet.

Headstrong is a global provider of comprehensive consulting and IT services with a specialized focus in capital markets and healthcare. With this acquisition, the Company acquires critical domain and technology expertise in the capital markets industry vertical.

The acquisition has been accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. The assets and liabilities of Headstrong were recorded at fair value at the date of acquisition. The Company will continue to evaluate certain assets and liabilities as new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. Changes to the assets and liabilities recorded may result in a corresponding adjustment to goodwill, and the measurement period will not exceed one year from the acquisition date. The following table summarizes the preliminary allocation of the preliminary estimated purchase price based on the fair value of the assets acquired and the liabilities assumed at the date of acquisition:

Preliminary estimated cash consideration	\$ 565,095
Acquisition related costs included in selling, general and administrative expenses	5,619
Recognized amounts of identifiable assets acquired and liabilities assumed	

Edgar Filing: Genpact LTD - Form 10-Q

Cash and cash equivalents	\$ 25,845
Current assets	62,237
Tangible fixed assets	14,634
Intangible assets	91,020
Deferred tax assets, net	18,346
Other non-current assets	11,968
Current liabilities	(42,650)
Long term liabilities	(6,274)
Total identifiable net assets assumed	\$ 175,126
Goodwill	389,969
Total	\$ 565,095

Table of Contents

The fair value of the current assets acquired includes trade receivables with a fair value of \$56,257. The gross amount due is \$56,497, of which \$240 is expected to be uncollectable.

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****3. Business acquisitions (continued)**

Goodwill represents the excess of the preliminary estimated purchase price over the net assets (including deferred taxes) acquired and is not deductible for tax purposes. The Company is currently evaluating the allocation of acquisition related goodwill to a reporting unit as of the date of the financial statements. The amortizable intangible assets are being amortized over their estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise realized. The preliminary estimated value and estimated useful lives of the intangibles are follows:

	Preliminary estimated value	Estimated useful life
Customer related intangibles	\$ 68,450	1 to 11 years
Marketing related intangibles	21,820	10 years
Other intangibles	750	7 years

The weighted average amortization period in respect of the acquired intangible assets is 10 years.

The results of operations of Headstrong and the fair value of the assets and liabilities are included in the Company's Consolidated Statements of Income from May 3, 2011, the date of acquisition. For the period from the acquisition date through June 30, 2011, Headstrong contributed revenue of \$45,154 and net income of \$2,590.

Pro Forma Financial Information

The unaudited pro forma financial information presented below for the six months ended June 30, 2010 and 2011 summarizes the combined results of operations as if the Headstrong acquisition had been completed as of the beginning of each of the periods presented. The pro forma financial information is presented for informational purposes and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of each of the periods presented.

	Actual as reported		Pro forma	
	Six months ended		Six months ended	
	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011
Net revenue	\$ 595,846	\$ 728,176	\$ 699,048	\$ 809,967
Net income from continuing operations	\$ 56,021	\$ 75,129	\$ 62,164	\$ 87,599
Earnings per share				
Basic	\$ 0.26	\$ 0.34	\$ 0.28	\$ 0.40
Diluted	\$ 0.25	\$ 0.33	\$ 0.28	\$ 0.39

The pro forma net income from continuing operations as above has been adjusted to exclude acquisition related cost of \$19,205 and \$5,619 incurred by the seller and the Company, respectively, during the six months ended June 30, 2011.

Edgar Filing: Genpact LTD - Form 10-Q

The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the acquisition been made at the beginning of the periods presented or the future results of combined operations.

(b) Akritiv Technologies, Inc.

On March 14, 2011, the Company acquired 100% of the outstanding equity interest in Akritiv Technologies, Inc., a Delaware corporation (Akritiv), for cash consideration of \$1,564 and a contingent earn-out component (ranging from \$0 to \$3,500 based on EBIT levels generated in years ending March 2012, 2013 and 2014), which had an estimated fair value of \$1,731 at the acquisition date. Acquisition-related costs incurred by the Company amounted to \$30, which have been expensed under Selling, general and administrative expenses in the Consolidated Statements of Income. Through this acquisition, the Company acquired proprietary technology platform and software as a service delivered solutions for functions such as credit and accounts receivable management. This will provide an end-to-end offering to clients for receiving and processing customer sales. Goodwill recorded in connection with Akritiv acquisition amounted to \$2,992.

The acquisition of Akritiv was accounted for as a business combination, in accordance with the acquisition method. The operations of Akritiv and the estimated fair market values of the assets and liabilities have been included in the Company s consolidated financial statements from the date of acquisition of March 14, 2011.

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****3. Business acquisitions (continued)**

The purchase price has been allocated based on management's estimates of the fair values of the acquired assets and liabilities as follows:

Net assets and liabilities	\$ (166)
Other intangible assets	600
Goodwill	2,992
Deferred tax liabilities, net	(131)
	\$ 3,295

The above acquired technology related intangible assets have estimated useful lives of 8 years.

4. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2010 and June 30, 2011 comprise:

	As of December 31, 2010	As of June 30, 2011
Deposits with banks	\$ 208,072	\$ 204,101
U.S. Treasury bills	91,490	
Other cash and bank balances	104,472	132,301
Total	\$ 404,034	\$ 336,402

The cash and cash equivalents as of December 31, 2010 and June 30, 2011 include restricted cash balance of \$0 and \$733, respectively. Restrictions are primarily on account of margin money against derivative instruments.

5. Short Term Investments

The components of the Company's short term investments as of December 31, 2010 and June 30, 2011 are as follows:

	Carrying Value	As of December 31, 2010		Estimated Fair Value
		Unrealized gains	Unrealized losses	
Short term investments:				

Edgar Filing: Genpact LTD - Form 10-Q

U.S. Treasury bills	\$ 76,974	\$ 11	\$	\$ 76,985
Total	\$ 76,974	\$ 11	\$	\$ 76,985

	As of June 30, 2011			
	Carrying Value	Unrealized gains	Unrealized losses	Estimated Fair Value
Short term investments:				
U.S. Treasury bills	\$	\$	\$	\$
Total	\$	\$	\$	\$

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****6. Accounts receivable, net of provision for doubtful receivables**

Accounts receivable were \$308,851 and \$393,481, and provision for doubtful receivables were \$2,926 and \$4,855, resulting in net accounts receivable balances of \$305,925 and \$388,626, as of December 31, 2010 and June 30, 2011, respectively. In addition, accounts receivable due after one year of \$10,454 and \$11,882 as of December 31, 2010 and June 30, 2011, respectively are included under other assets in the Consolidated Balance Sheets.

Accounts receivable from related parties were \$131,959 and \$142,694, and provision for doubtful receivables were \$688 and \$979, resulting in net accounts receivable balances of \$131,271 and \$141,715, as of December 31, 2010 and June 30, 2011, respectively.

7. Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including derivative instruments, U.S. Treasury bills and notes, and loans held for sale. The fair value measurements of these derivative instruments, U.S. Treasury bills and loans held for sale were determined using the following inputs as of December 31, 2010 and June 30, 2011:

	Total	As of December 31, 2010 Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Derivative Instruments (Note a)	\$ 38,026	\$	\$ 38,026	\$
Loans held for sale (Note a)	530			530
U.S. Treasury bills and notes (Note c)	168,475	168,475		
Total	\$ 207,031	\$ 168,475	\$ 38,026	\$ 530
Liabilities				
Derivative Instruments (Note b)	\$ 64,363	\$	\$ 64,363	\$
Total	\$ 64,363	\$	\$ 64,363	\$
	Total	As of June 30, 2011 Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				

Edgar Filing: Genpact LTD - Form 10-Q

Derivative Instruments (Note a)	\$ 61,327	\$	\$ 61,327	\$
Loans held for sale (Note a)	529			529
U.S. Treasury bills and notes (Note c)				
Total	\$ 61,856	\$	\$ 61,327	\$ 529
Liabilities				
Derivative Instruments (Note b)	\$ 32,700	\$	\$ 32,700	\$
Total	\$ 32,700	\$	\$ 32,700	\$

- (a) Included in prepaid expenses and other current assets, and other assets in the Consolidated Balance Sheets.
- (b) Included in accrued expenses and other current liabilities, and other liabilities in the Consolidated Balance Sheets.
- (c) Included in either cash and cash equivalents or short term investment, depending on the maturity profile, in the Consolidated Balance Sheets.

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****7. Fair Value Measurements (Continued)**

Following is the reconciliation of loans held for sale which have been measured at fair value using significant other unobservable inputs:

	Three months ended June 30,		Six months ended June 30,	
	2010	2011	2010	2011
Opening balance, net	\$ 548	\$ 529	\$ 552	\$ 530
Impact of fair value included in earnings	75		75	
Settlements	(18)		(22)	(1)
Closing balance, net	\$ 605	\$ 529	\$ 605	\$ 529

The Company values the derivative instruments based on market observable inputs including both forward and spot prices for currencies. The quotes are taken from multiple independent sources including financial institutions. Loans held for sale are valued using collateral values based on inputs from a single source when the Company is not able to corroborate the inputs and assumptions with other relevant market information. Investments in U.S. Treasury bills which are classified as available-for-sale and cash and cash equivalents, depending on the maturity profile, are measured using quoted market prices at the reporting date multiplied by the quantity held.

8. Derivative financial instruments

The Company is exposed to the risk of rate fluctuations on foreign currency assets and liabilities, and foreign currency denominated forecasted cash flows. The Company has established risk management policies, including the use of derivative financial instruments to hedge foreign currency assets and liabilities, and foreign currency denominated forecasted cash flows. These derivative financial instruments are largely deliverable and non-deliverable forward foreign exchange contracts. The Company enters into these contracts with counterparties which are banks / financial institutions and the Company considers the risks of non-performance by the counterparties as not material. The forward foreign exchange contracts mature between zero and forty-eight months and the forecasted transactions are expected to occur during the same period.

The following table presents the aggregate notional principal amounts of the outstanding derivative financial instruments together with the related balance sheet exposure:

	Notional principal amounts (Note a)		Balance sheet exposure asset (liability) (Note b)	
	As of December 31, 2010	As of June 30, 2011	As of December 31, 2010	As of June 30, 2011
Foreign exchange forward contracts denominated in:				
United States Dollars (sell) Indian Rupees (buy)	\$ 1,937,497	\$ 1,820,450	\$ (19,405)	\$ 40,789
United States Dollars (sell) Mexican Peso (buy)	14,400	9,600	510	951
United States Dollars (sell) Philippines Peso (buy)	51,950	45,900	2,210	1,664

Edgar Filing: Genpact LTD - Form 10-Q

Euro (sell) United States Dollars (buy)	61,426	72,084	953	(4,274)
Euro (sell) Hungarian Forints (buy)	13,408	13,742	341	1,208
Euro (sell) Romanian Leu (buy)	55,392	62,660	591	1,854
Japanese Yen (sell) Chinese Renminbi (buy)	66,970	66,634	(6,930)	(5,147)
Pound Sterling (sell) United States Dollars (buy)	71,463	82,041	1,680	(437)
Australian Dollars (sell) United States Dollars (buy)	58,577	66,902	(6,287)	(7,981)
			\$ (26,337)	\$ 28,627

- (a) Notional amounts are key elements of derivative financial instrument agreements, but do not represent the amount exchanged by counterparties and do not measure the Company's exposure to credit or market risks. However, the amounts exchanged are based on the notional amounts and other provisions of the underlying derivative financial instruments agreements.
- (b) Balance sheet exposure is denominated in U.S. Dollars and denotes the mark-to-market impact of the derivative financial instruments on the reporting date.

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****8. Derivative financial instruments (Continued)**

FASB guidance on Derivatives and Hedging requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with the FASB guidance on Derivatives and Hedging, the Company designates foreign exchange forward contracts as cash flow hedges for forecasted revenues and the purchases of service. In addition to this program the Company also has derivative instruments that are not accounted for as hedges under the FASB guidance to hedge the foreign exchange risks related to balance sheet items such as receivables including forecasted receivables, and inter-company borrowings denominated in currencies other than the underlying functional currency.

The fair value of the derivative instruments and their location in the financial statements of the Company is summarized in the table below:

	Cash flow		Non-designated	
	As of December 31, 2010	As of June 30, 2011	As of December 31, 2010	As of June 30, 2011
Assets				
Prepaid expenses and other current assets	\$ 10,186	\$ 39,659	\$ 1,202	\$ 2,745
Other assets	\$ 26,638	\$ 18,923	\$	\$
Liabilities				
Accrued expenses and other current liabilities	\$ 44,577	\$ 13,632	\$ 58	\$ 3,281
Other liabilities	\$ 19,728	\$ 15,787	\$	\$

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****8. Derivative financial instruments (Continued)***Cash flow hedges*

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain (loss) on the derivative instrument is reported as a component of accumulated other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction is recognized in the Consolidated Statements of Income. Gains (losses) on the derivatives representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in earnings as incurred.

In connection with cash flow hedges, the Company has recorded as a component of accumulated other comprehensive income (loss) or OCI within equity a gain (loss) of (\$18,235) and \$19,366, net of taxes, as of December 31, 2010 and June 30, 2011, respectively.

The gains / losses recognized in accumulated other comprehensive income (loss), and their effect on financial performance is summarized below:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) recognized in OCI on Derivatives (Effective Portion)		Location of Gain (Loss) reclassified from accumulated OCI into Statement of Income (Effective Portion)	Amount of Gain (Loss) reclassified from Accumulated OCI into Statement of Income (Effective Portion)		Location of Gain (Loss) recognized in Income and Amount excluded from Effectiveness Testing)	Amount of Gain (Loss) recognized in Derivative (Ineffective Portion) on Derivative (Ineffective Portion) and Amount excluded from Effectiveness Testing)			
	Six months ended June 30, 2010	June 30, 2011		Three months ended June 30, 2010	Three months ended June 30, 2011		Derivatives (Ineffective Portion and Amount excluded from Effectiveness Testing)	Three months ended June 30, 2010	Three months ended June 30, 2011	Six months ended June 30, 2010
Forward foreign exchange contracts	\$ (19,192)	\$ 31,300	Revenue	\$ (414)	\$ (2,785)	Foreign exchange (gains) losses, net	\$	\$	\$	\$
			Cost of revenue	(13,819)	(5,154)					
			Selling, general and administrative expenses	(3,475)	(1,373)					
	\$ (19,192)	\$ 31,300		\$ (17,708)	\$ (9,312)		\$	\$	\$	\$
				\$ (2,041)	\$ (4,237)					
				(26,763)	(17,456)					
				(7,118)	(3,651)					
				\$ (25,344)						

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****8. Derivative financial instruments (Continued)***Non designated Hedges*

Derivatives not designated as hedging instruments	Location of (Gain) Loss recognized in Income on Derivatives	Amount of (Gain) Loss recognized in Income on Derivatives			
		Three months ended June 30,		Six months ended June 30,	
		2010	2011	2010	2011
Forward foreign exchange contracts (Note a)	Foreign exchange (gains) losses, net	\$ 2,494	\$ (390)	\$ (6,319)	\$ (2)
Forward foreign exchange contracts (Note b)	Foreign exchange (gains) losses, net			(234)	
		\$ 2,494	\$ (390)	\$ (6,553)	\$ (2)

- (a) These forward foreign exchange contracts were entered into to hedge the fluctuations in foreign exchange rates for recognized balance sheet items such as receivables including forecasted receivables, and inter-company borrowings, and were not originally designated as hedges under FASB guidance on Derivatives and Hedging. Realized (gains) losses and changes in the fair value of these derivatives are recorded in foreign exchange (gains) losses, net in the Consolidated Statements of Income.
- (b) These forward foreign exchange contracts were initially designated as cash flow hedges under FASB guidance on Derivatives and Hedging. The net (gains) losses amounts of \$(234) and \$0 for the six months ended June 30, 2010 and 2011 respectively, and the net (gains) losses amounts of \$0 and \$0 for the three months ended June 30, 2010 and 2011 respectively, include the recognition of losses for certain derivative contracts accounted for within accumulated other comprehensive income (loss). These losses were recognized as certain forecasted transactions are no longer expected to occur and therefore hedge accounting is no longer applied. These amounts represent subsequent realized (gains) losses and changes in the fair value of these derivatives and are recorded in foreign exchange (gains) losses, net in the Consolidated Statements of Income.

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****9. Property, plant and equipment, net**

Property, plant and equipment, net consist of the following:

	As of December 31, 2010	As of June 30, 2011
Property, plant and equipment, gross	\$ 440,570	\$ 468,517
Less: Accumulated depreciation and amortization	(243,404)	(274,722)
Property, plant and equipment, net	\$ 197,166	\$ 193,795

Depreciation expense on property, plant and equipment for the six months ended June 30, 2010 and 2011 was \$24,570, and \$23,839 respectively, and for the three months ended June 30, 2010 and 2011 was \$12,641 and \$12,066, respectively. The amount of computer software amortization for the six months ended June 30, 2010 and 2011 was \$6,742, and \$6,507, respectively, and for the three months ended June 30, 2010 and 2011 was \$3,425 and \$3,315, respectively.

The above depreciation and amortization expense includes the effect of reclassification of foreign exchange (gains) losses related to the effective portion of the foreign currency derivative contracts amounting to \$2,552 and \$1,341 for the six months ended June 30, 2010 and 2011, respectively, and \$1,294 and \$379 for the three months ended June 30, 2010 and 2011, respectively.

10. Goodwill and intangible assets

The following table presents the changes in goodwill for the year ended December 31, 2010 and six months ended June 30, 2011:

	As of December 31, 2010	As of June 30, 2011
Opening balance	\$ 548,723	\$ 570,153
Goodwill relating to acquisitions consummated during the period	16,251	392,961
Effect of exchange rate fluctuations	5,179	11,877
Closing balance	\$ 570,153	\$ 974,991

The total amount of goodwill deductible for tax purposes is \$10,474 and \$1,716 as of December 31, 2010 and June 30, 2011, respectively.

The Company's intangible assets acquired either individually or with a group of other assets or in a business combination are as follows:

As of December 31, 2010

As of June 30, 2011

Edgar Filing: Genpact LTD - Form 10-Q

	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Customer-related intangible assets	\$ 222,285	\$ 188,989	\$ 33,296	\$ 293,884	\$ 199,626	\$ 94,258
Marketing-related intangible assets	15,835	15,835		37,803	16,346	21,457
Contract-related intangible assets	1,423	1,423		1,443	1,443	
Other intangible assets	318	267	51	1,677	366	1,311
	\$ 239,861	\$ 206,514	\$ 33,347	\$ 334,807	\$ 217,781	\$ 117,026

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****10. Goodwill and intangible assets (Continued)**

Amortization expenses for intangible assets as disclosed in the Consolidated Statements of Income under amortization of acquired intangible assets for the six months ended June 30, 2010 and 2011 were \$8,284 and \$8,217, respectively, and for the three months ended June 30, 2010 and 2011 were \$4,065 and \$5,140, respectively. Intangible assets recorded for the 2004 Reorganization include the incremental value of the minimum volume commitment from GE, entered into contemporaneously with the 2004 Reorganization, over the value of the pre-existing customer relationship with GE. The amortization of this intangible asset for the six months ended June 30, 2010 and 2011 were \$165 and \$83, respectively, and for the three months ended June 30, 2010 and 2011 were \$81 and \$41, respectively, and has been reported as a reduction of revenue. As of June 30, 2011, the unamortized value of the intangible asset was \$154, which will be amortized in future periods and reported as a reduction of revenue.

11. Employee benefit plans

The Company has employee benefit plans in the form of certain statutory and other schemes covering its employees.

Defined benefit plans

In accordance with Indian law, the Company provides a defined benefit retirement plan (the *Gratuity Plan*) covering substantially all of its Indian employees. In addition, in accordance with Mexican law, the Company provides termination benefits (the *Mexican Plan*) to all of its Mexican employees. As a result of Headstrong's acquisition during the current period, the Company provided for defined benefit plans in India, Japan and Philippines.

Net defined benefit plan costs for the three months and six months ended June 30, 2010 and 2011 include the following components:

	Three months ended June 30,		Six months ended June 30,	
	2010	2011	2010	2011
Service costs	\$ 611	\$ 860	\$ 1,212	\$ 1,553
Interest costs	240	378	476	713
Amortization of actuarial loss	89	140	177	277
Expected return on plan assets	(201)	(160)	(398)	(330)
Net Gratuity Plan costs	\$ 739	\$ 1,218	\$ 1,467	\$ 2,213

Defined contribution plans

During the three months and six months ended June 30, 2010 and 2011, the Company contributed the following amounts to defined contribution plans in various jurisdictions:

Edgar Filing: Genpact LTD - Form 10-Q

	Three months ended June 30,		Six months ended June 30,	
	2010	2011	2010	2011
India	\$ 2,579	\$ 2,749	\$ 4,890	\$ 6,069
U.S.	423	510	830	1,168
U.K.	228	316	434	523
Hungary	7	9	15	22
China	1,873	2,088	3,681	4,261
Mexico	14	7	26	18
South Africa	74	137	171	164
Morocco	31	37	62	72
Total	\$ 5,229	\$ 5,853	\$ 10,109	\$ 12,297

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****12. Stock-based compensation**

The Company has issued options under the Genpact Global Holdings 2005 Plan (the 2005 Plan), Genpact Global Holdings 2006 Plan (the 2006 Plan), Genpact Global Holdings 2007 Plan (the 2007 Plan) and Genpact Limited 2007 Omnibus Incentive Compensation Plan (the 2007 Omnibus Plan) to eligible persons who are employees, directors and certain other persons associated with the Company.

From the date of adoption of the 2007 Omnibus Plan on July 13, 2007, the options forfeited, expired, terminated, or cancelled under any of the plans will be added to the number of shares otherwise available for grant under the 2007 Omnibus Plan. The 2007 Omnibus Plan was amended and restated on April 15, 2011.

The stock-based compensation costs relating to above plans during the six months ended June 30, 2010 and 2011, were \$10,251 and \$8,519 respectively, and for the three months ended June 30, 2010 and 2011, were \$5,780 and \$5,472, respectively, have been allocated to cost of revenue and selling, general, and administrative expenses.

There are no significant changes to the assumptions used to estimate the fair value of options granted during the six months ended June 30, 2011.

A summary of the options granted during the six months ended June 30, 2011 is set out below:

	Six months ended June 30, 2011			
	Shares arising out of options	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Outstanding as of January 1, 2011	15,989,356	\$ 10.84	6.4	\$
Granted	250,000	15.34		
Forfeited	(876,355)	14.44		
Expired	(118,219)	15.63		
Exercised	(529,426)	10.71		3,455
Outstanding as of June 30, 2011	14,715,356	\$ 10.67	6.0	\$ 96,733
Vested and exercisable as of June 30, 2011 and expected to vest thereafter (Note a)	13,811,336	\$ 10.61	6.0	\$ 91,566
Vested and exercisable as of June 30, 2011	8,035,924	\$ 8.18	5.1	\$ 72,772
Weighted average grant date fair value of grants during the period	\$ 6.21			

(a) Options expected to vest reflect an estimated forfeiture rate.

As of June 30, 2011, the total remaining unrecognized stock based compensation costs for options expected to vest amounted to \$23,941, which will be recognized over the weighted average remaining requisite vesting period of 2.11 years.

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****12. Stock-based compensation (Continued)****Share Issuances Subject to Restrictions**

In connection with the acquisition of Axis Risk Consulting Services Private Limited in 2007, 143,453 common shares were issued to selling shareholders. Of the common shares that were issued, 94,610 common shares were issued to selling shareholders who became employees of the Company and are subject to restrictions on transfer linked to continued employment with the Company for a specified period. The Company has accounted for such shares as compensation for services.

A summary of such shares granted that are subject to restrictions and accounted for as compensation for services, or restricted shares, during the six months ended June 30, 2011 is set out below:

	Six months ended June 30, 2011	
	Number of Restricted Shares	Weighted Average Grant Date Fair Value
Outstanding as of January 1, 2011	23,653	\$ 14.04
Granted		
Vested and allotted	(23,653)	14.04
Forfeited		
Outstanding as of June 30, 2011		\$

Restricted Share Units

The Company granted restricted share units, or RSUs, under the 2007 Omnibus Plan. Each RSU represents the right to receive one common share. The fair value of each RSU is the market price of one common share of the Company on the date of grant. The RSUs granted to date have vesting schedules of one to four years. The compensation expense is recognized on a straight line over the vesting term.

A summary of RSUs granted during the six months ended June 30, 2011 is set out below:

	Six months ended June 30, 2011	
	Number of Restricted Share Units	Weighted Average Grant Date Fair Value
Outstanding as of January 1, 2011	1,016,000	\$ 13.61
Granted	914,848	16.28
Vested and allotted	(87,500)	8.27
Forfeited	(176,357)	13.34
Outstanding as of June 30, 2011	1,666,991	\$ 15.39

Edgar Filing: Genpact LTD - Form 10-Q

Expected to vest

1,370,973

23

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****12. Stock-based compensation (Continued)**

As of June 30, 2011, the total remaining unrecognized stock-based compensation costs related to RSUs amounted to \$17,860 which will be recognized over the weighted average remaining requisite vesting period of 2.98 years.

Performance Units

The Company also makes stock awards in the form of Performance Units, or PUs, under the 2007 Omnibus Plan.

The Company granted PUs, wherein each PU represents the right to receive a common share based on the Company's performance against specified targets. PUs granted to date have vesting schedules of six months to three years. The fair value of each PU is the market price of one common share of the Company on the date of grant, and assumes that performance targets will be achieved. The PUs granted under the plan are subject to cliff or graded vesting. For awards with cliff vesting, the compensation expense is recognized on a straight line basis over the vesting term and for awards with graded vesting, compensation expenses is recognized over the vesting term of each separately vesting portion. Over the performance period, the number of shares that will be issued will be adjusted upward or downward based upon the probability of achievement of the performance targets. The ultimate number of shares issued and the related compensation cost recognized as expense will be based on a comparison of the final performance metrics to the specified targets.

A summary of PUs activity during the six months ended June 30, 2011 is set out below:

	Number of Performance Units	Six months ended June 30, 2011 Weighted Average Grant Date Fair Value	Maximum Shares Eligible to Receive
Outstanding as of January 1, 2011	895,333	\$ 15.38	1,343,000
Granted	1,682,196	15.05	2,346,995
Vested and allotted			
Forfeited	(66,714)	16.39	(97,143)
Outstanding as of June 30, 2011	2,510,815	\$ 15.13	3,592,853

Performance Units expected to vest 2,205,071

As of June 30, 2011, the total remaining unrecognized stock-based compensation costs related to PUs amounted to \$27,935 which will be recognized over the weighted average remaining requisite vesting period of 2.14 years.

In the first quarter of 2011, the compensation committee of the board of directors of the Company modified the performance metrics for the performance unit grants made to employees in March 2010 from revenue and EBITDA growth to revenue and adjusted operating income growth.

Edgar Filing: Genpact LTD - Form 10-Q

Performance Level	Original Performance Target		Modified Performance Target	
	Revenue Growth	EBITDA Growth	Revenue Growth	Adjusted Income from Operation growth
Outstanding	20.0%	20.0%	20.0%	20.0%
Target	15.0%	15.0%	15.0%	15.0%
Threshold	10.0%	10.0%	10.0%	10.0%

For the August 2010 performance unit grant to the former CEO, who changed his role to Non-Executive Vice-Chairman as of June 17, 2011, in addition to the modification made to the performance metrics from revenue and EBITDA growth to revenue and adjusted operating income growth, because the award vests based on annual performance targets whereas the awards to the other employees vest based on average performance over three years, revision has been made to the performance targets in order to make the performance targets consistent with performance unit grants made to employees in the first quarter of 2011.

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****12. Stock-based compensation (Continued)**

Performance Level	Original Performance Target		Modified Performance Target	
	Revenue Growth	EBITDA Growth	Revenue Growth	Adjusted Income from Operation growth
Outstanding	20.0 %	20.0 %	17.0 %	16.0 %
Target	15.0 %	15.0 %	12.5 %	12.5 %
Threshold	10.0 %	10.0 %	8.0 %	7.0 %

As a result of the above mentioned modifications, 45 employees were affected and incremental compensation cost of \$4,109 is to be recognized over a period of 21.5 months starting from March 2011 to December 31, 2012. Out of the total incremental compensation cost, \$2,878 and \$ 1,231 is to be recognized over the years 2011 and 2012 respectively.

Employee Stock Purchase Plan (ESPP)

On May 1, 2008, the Company adopted the Genpact Limited U.S. Employee Stock Purchase Plan and the Genpact Limited International Employee Stock Purchase Plan (together, the ESPP).

The ESPP allowed eligible employees to purchase the Company's common shares through payroll deduction at 95% of the fair value per share on the last business day of each purchase interval ending on or prior to August 31, 2009. The purchase price has been reduced to 90% of the fair value per share on the last business day of each purchase interval commencing with effect from September 1, 2009. The dollar amount of common shares purchased under the ESPP shall not exceed the greater of 15% of the participating employee's base salary or \$25 per calendar year. With effect from September 1, 2009, the offering periods commence on the first business day in March, June, September and December of each year and end on the last business day in the subsequent May, August, November and February of each year. 4,200,000 common shares have been reserved for issuance in the aggregate over the term of the ESPP.

During the six months ended June 30, 2010 and 2011, common shares issued under ESPP were 20,648 and 23,579 respectively.

The ESPP was considered as non compensatory under the FASB guidance on Compensation-Stock Compensation until the purchase interval ending on or prior to August 31, 2009. As a result of the change in the discount rate, the ESPP is being considered compensatory with effect from September 1, 2009.

The compensation expenses for the employee stock purchase plan is recognized in accordance with the FASB guidance on Compensation-Stock Compensation. The compensation expense for ESPP during the six months ended June 30, 2010 and 2011, were \$34 and \$40, respectively, and for the three months ended June 30, 2010 and 2011, were \$19 and \$22 respectively, and has been allocated to cost of revenue and selling, general, and administrative expenses.

13. Earnings per share

The Company calculates earnings per share in accordance with FASB guidance on Earnings per share. Basic and diluted earnings per common share give effect to the change in the number of common shares of the Company. The calculation of earnings per common share was determined

Edgar Filing: Genpact LTD - Form 10-Q

by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the respective periods. The potentially dilutive shares, consisting of outstanding options on common shares, restricted share units, common shares to be issued under employee stock purchase plan and performance units have been included in the computation of diluted net earnings per share and the weighted average shares outstanding, except where the result would be anti-dilutive.

The number of stock options outstanding but not included in the computation of diluted earnings per common share because their effect was anti-dilutive is 10,001,706 and 7,337,228 for the six months ended June 30, 2010 and 2011, respectively, and is 9,621,198 and 6,894,891 for the three months ended June 30, 2010 and 2011, respectively.

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****13. Earnings per share (Continued)**

	Three months ended June 30,		Six months ended June 30,	
	2010	2011	2010	2011
Net income attributable to Genpact Limited common shareholders	\$ 27,847	\$ 39,009	\$ 56,021	\$ 75,129
Weighted average number of common shares used in computing basic earnings per common share	218,955,223	221,297,842	218,455,684	221,153,301
Dilutive effect of stock based awards	5,991,952	4,848,546	6,003,933	4,691,538
Weighted average number of common shares used in computing dilutive earnings per common share	224,947,174	226,146,388	224,459,617	225,844,839
Earnings per common share attributable to Genpact Limited common shareholders				
Basic	\$ 0.13	\$ 0.18	\$ 0.26	\$ 0.34
Diluted	\$ 0.12	\$ 0.17	\$ 0.25	\$ 0.33

14. Short-term borrowings

The Company has the following borrowing facilities:

- (a) fund-based and non-fund-based credit facilities with banks which are available for operational requirements in the form of overdrafts, letters of credit, guarantees, short-term loans excluding forward hedging. As of June 30, 2011, the limits available was \$17,417 and an amount of \$3,990 was outstanding for non-funded facility.
- (b) fund-based and non-fund-based revolving credit facilities of \$260,000 for operational requirements expiring May 2015. This was initially used for the acquisition of Headstrong Corporation. As of June 30, 2011, a total of \$259,000 was utilized, representing a funded drawdown of \$ 252,000 and non-funded drawdown of \$7,000. These facilities bear interest at LIBOR plus a margin 1.65%. Indebtedness under these facilities is secured by certain assets. The agreement contains certain covenants including a restriction on further indebtedness of the Company.

15. Long-term debt

The Company obtained credit facilities aggregating \$380,000 from a consortium of financial institutions to finance in part the acquisition of Headstrong and general corporate purposes of the Company and its subsidiaries, including working capital requirements. The credit agreement provides for a \$120,000 term loan and a \$260,000 revolving credit facility. The Company has an option to increase the commitment under the Credit Agreement by up to an additional \$100,000 subject to certain approvals and conditions as set forth in the credit agreement.

Edgar Filing: Genpact LTD - Form 10-Q

The outstanding term loan amounting to \$120,000 bears interest at LIBOR plus a margin of 1.65%. The interest rate as of June 30, 2011 was 1.90%. Indebtedness under the loan agreement is secured by certain assets, and the agreement contains certain covenants including a restriction on further indebtedness of the Company. The entire amount remains outstanding as of June 30, 2011. This will be repaid over four years through semi annual repayments of \$15,000 commencing six months from the initial drawdown on May 3, 2011.

The maturity profile of the term loan, net of debt amortization expense is as follows:

Year	Amount
2011	\$ 14,377
2012	29,003
2013	29,328
2014	29,648
2015	14,945
	\$ 117,301

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****16. Cost of revenue**

Cost of revenue consists of the following:

	Three months ended June 30,		Six months ended June 30,	
	2010	2011	2010	2011
Personnel expenses	\$ 121,340	\$ 168,132	\$ 236,311	\$ 311,873
Operational expenses	56,443	72,527	105,830	130,087
Depreciation and amortization	13,318	13,371	25,645	26,557
	\$ 191,101	\$ 254,030	\$ 367,786	\$ 468,517

17. Selling, general and administrative expenses

Selling, general and administrative expenses consist of the following:

	Three months ended June 30,		Six months ended June 30,	
	2010	2011	2010	2011
Personnel expenses	\$ 52,624	\$ 59,438	\$ 103,943	\$ 106,958
Operational expenses	19,902	25,276	38,558	43,418
Depreciation and amortization	2,751	2,010	5,667	3,789
	\$ 75,277	\$ 86,724	\$ 148,168	\$ 154,165

18. Other operating (income) expense, net

Other operating (income) expense, net consists of the following:

	Three months ended June 30,		Six months ended June 30,	
	2010	2011	2010	2011
Other operating (income) expense	\$ (1,111)	\$ (800)	\$ (3,941)	\$ (1,756)
Impairment of capital work in progress		1,465		1,465
Other operating (income) expense, net	\$ (1,111)	\$ 665	\$ (3,941)	\$ (291)

19. Other income (expense), net

Other income (expense), net consists of the following:

Edgar Filing: Genpact LTD - Form 10-Q

	Three months ended June 30,		Six months ended June 30,	
	2010	2011	2010	2011
Interest income	\$ 702	\$ 3,605	\$ 2,044	\$ 7,163
Interest expense	(530)	(1,934)	(1,105)	(2,599)
Secondary offering expenses			(591)	
Other income	672	1,355	1,766	1,560
Other income (expense), net	\$ 844	\$ 3,026	\$ 2,114	\$ 6,124

Table of Contents**GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****20. Income taxes**

As of December 31, 2010, the Company had unrecognized tax benefits amounting to \$20,016 including an amount of \$19,860 that, if recognized would impact the effective tax rate.

The following table summarizes the activities related to our unrecognized tax benefits for uncertain tax positions from January 1, 2011 to June 30, 2011:

Opening balance at January 1, 2011	\$ 20,016
Increase related to prior year tax positions, including recorded against Goodwill	2,225
Increase related to current year tax positions, including recorded against Goodwill	1,700
Decrease related to prior year tax positions	(111)
Effect of exchange rate changes	191
Closing balance at June 30, 2011	\$ 24,021

The unrecognized tax benefits as of June 30, 2011 include an amount of \$ 23,860 that, if recognized, would impact the effective tax rate. As of December 31, 2010 and June 30, 2011, the Company has accrued approximately \$2,020 and \$ 2,573 respectively, in interest relating to unrecognized tax benefits.

21. Related party transactions

The Company has entered into related party transactions with GE and companies in which GE has a majority ownership interest or on which it exercises significant influence (collectively referred to as GE herein). The Company has also entered into related party transactions with its non-consolidating affiliates, a customer in which one of the Company's directors has a controlling interest and a customer which has a significant interest in the Company.

The related party transactions can be categorized as follows:

Revenue from services

Prior to December 31, 2004, substantially all of the revenues of the Company were derived from services provided to GE entities. In connection with the 2004 Reorganization, GE entered into a Master Service Agreement, or MSA, with the Company. The GE MSA, as amended, provides that GE will purchase services in an amount not less than a minimum volume commitment, or MVC, of \$360,000 per year for seven years beginning January 1, 2005, \$270,000 in 2012, \$180,000 in 2013 and \$90,000 in 2014. Revenues in excess of the MVC can be credited, subject to certain limitations, against shortfalls in the subsequent years.

On January 26, 2010, the Company extended its MSA, with GE by two years, through the end of 2016, including the minimum annual volume commitment of \$360,000. The MSA also provides that the minimum annual volume commitment for each of the years 2014, 2015 and 2016 is \$250,000, \$150,000 and \$90,000, respectively.

Edgar Filing: Genpact LTD - Form 10-Q

For the six months ended June 30, 2010 and 2011, the Company recognized net revenues from GE of \$231,118 and \$ 235,411 respectively, representing 39% and 32%, respectively, of the consolidated total net revenues.

For the three months ended June 30, 2010 and 2011, the Company recognized net revenues from GE of \$117,780 and \$ 122,629 respectively, representing 38% and 31%, respectively, of the consolidated total net revenues.

For the six months ended June 30, 2010 and 2011, the Company recognized net revenues of \$134 and \$157, respectively, and for the three months ended June 30, 2010 and 2011, the Company recognized net revenues of \$134 and \$81, respectively, from a customer in which one of the Company's directors has a controlling interest.

For the six months ended June 30, 2010 and 2011, the Company recognized net revenues of \$0 and \$176, respectively, and for the three months ended June 30, 2010 and 2011, the Company recognized net revenues of \$0 and \$73, respectively, from a customer which has a significant interest in the Company.

Table of Contents

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data)

21. Related party transactions (Continued)

Cost of revenue from services

The Company purchases certain services from GE mainly relating to communication and leased assets, which are included as part of operational expenses included in cost of revenue. For the six months ended June 30, 2010 and 2011, cost of revenue, net of recovery, included amounts of \$2,582 and \$2,067, respectively, and for the three months ended June 30, 2010 and 2011, cost of revenue, net of recovery, included amounts of \$1,296 and \$756, respectively relating to services procured from GE. For the six months ended June 30, 2010 and 2011, cost of revenue from services also include training and recruitment cost of \$579 and \$357 respectively, and \$236 and \$124 for the three months ended June 30, 2010 and 2011, respectively, from its non-consolidating affiliates

Selling, general and administrative expenses

The Company purchases certain services from GE mainly relating to communication and leased assets, which are included as part of operational expenses included in selling, general and administrative expenses. For the six months ended June 30, 2010 and 2011, selling, general and administrative expenses, net of recovery, included amounts of \$314 and \$282, respectively, and for the three months ended June 30, 2010 and 2011, selling, general and administrative expenses, net of recovery, included amounts of \$111 and \$100, respectively, relating to services procured from GE. For the six months ended June 30, 2010 and 2011, selling, general, and administrative expenses also include training and recruitment cost and cost recovery, net, of \$300 and \$(4), respectively, and for the three months ended June 30, 2010 and 2011, selling, general, and administrative expenses also include training and recruitment cost and cost recovery, net, of \$78 and \$15, respectively, from its non-consolidating affiliates.

Other operating (income) expense, net

The Company provides certain shared services such as facility, recruitment, training, and communication to GE. Recovery for such services has been included as other operating income in the Consolidated Statements of Income. For the six months ended June 30, 2010 and 2011, income from these services was (\$1,242) and (\$1,100), respectively, and for the three months ended June 30, 2010 and 2011, income from these services was (\$457) and (\$587), respectively.

Interest income

The Company earned interest income on short-term deposits placed with GE. For the six months ended June 30, 2010 and 2011, interest income earned on these deposits was \$118 and \$0, respectively, and for the three months ended June 30, 2010 and 2011, interest income earned on these deposits was \$25 and \$0, respectively.

Interest expense

The Company incurred interest expense on finance lease obligations from GE. For the six months ended June 30, 2010 and 2011, interest expense relating to such related party debt amounted to \$142 and \$191, respectively, and for the three months ended June 30, 2010 and 2011, interest expense relating to such related party debt amounted to \$30 and \$88, respectively.

Investment in equity affiliates

Edgar Filing: Genpact LTD - Form 10-Q

During the six months ended June 30, 2010 and 2011, the Company has made an investment of \$2,324 and \$0, respectively, in its non-consolidating affiliates and for the three months ended June 30, 2010 and 2011, the Company has made an investment of \$324 and \$0, respectively, in its non-consolidating affiliates.

Table of Contents

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data)

22. Commitments and contingencies

Capital commitments

As of December 31, 2010 and June 30, 2011, the Company has committed to spend \$3,041 and \$6,804, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of these purchases.

Bank Guarantees

The Company has outstanding bank guarantees including letters of credit amounting to \$12,745 and \$10,952, as of December 31, 2010 and June 30, 2011, respectively. Bank guarantees are generally provided to government agencies, excise and customs authorities for the purposes of maintaining a bonded warehouse. These guarantees may be revoked by the governmental agencies if they suffer any losses or damage through the breach of any of the covenants contained in the agreements.

Other commitments

The Company's business process Delivery Centers in India are 100% Export Oriented units or Software Technology Parks of India units (STPI) under the STPI guidelines issued by the Government of India. These units are exempted from customs, central excise duties, and levies on imported and indigenous capital goods, stores, and spares. The Company has executed legal undertakings to pay custom duty, central excise duty, levies, and liquidated damages payable, if any, in respect of imported and indigenous capital goods, stores, and spares consumed duty free, in the event that certain terms and conditions are not fulfilled.

Table of Contents

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

You should read the following discussion in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2010 and with the information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2010. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in or implied by any of the forward-looking statements as a result of various factors, including but not limited to those listed below and under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010.

Special Note Regarding Forward-Looking Statements

We have made statements in this Quarterly Report on Form 10-Q (the "Quarterly Report") in, among other sections, this Part 1 Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations", that are forward-looking statements. In some cases, you can identify these statements by forward-looking terms such as "expect", "anticipate", "intend", "plan", "believe", "seek", "estimate", "could", "shall", "will", "would" and variations of such words and similar expressions, or the negative of such words or similar expressions. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include projections of our future financial performance, which in some cases may be based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from those expressed or implied by the forward-looking statements. In particular, you should consider the numerous risks outlined in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010. These forward-looking statements include, but are not limited to, statements relating to:

our ability to retain existing clients and contracts;

our ability to win new clients and engagements;

the expected value of the statements of work under our master service agreements;

our beliefs about future trends in our market;

political or economic instability in countries where we have operations;

worldwide political, economic or business conditions;

political, economic or business conditions where our clients operate;

expected spending on business process services by clients;

foreign currency exchange rates;

our rate of employee attrition;

Edgar Filing: Genpact LTD - Form 10-Q

our effective tax rate; and

competition in our industry.

Factors that may cause actual results to differ from expected results include, among others:

our ability to grow our business and effectively manage growth and international operations while maintaining effective internal controls;

our relative dependence on GE;

our dependence on revenues derived from clients in the United States;

our ability to hire and retain enough qualified employees to support our operations;

our ability to successfully consummate or integrate strategic acquisitions;

our dependence on favorable tax legislation and tax policies that may be amended in a manner adverse to us or be unavailable to us in the future;

increases in wages in locations in which we have operations;

restrictions on visas for our employees traveling to North America and Europe;

our ability to maintain pricing and asset utilization rates;

Table of Contents

fluctuations in exchange rates between U.S. dollars, euros, U.K. pounds sterling, Chinese renminbi, Hungarian forint, Japanese yen, Indian rupees, Australian dollars, Philippines peso, Guatemala quetzal, Mexican peso, Moroccan dirham (DH), Polish zloty, Romanian leu, South African rand, Hong Kong dollar, Singapore dollar and Brazilian real;

our ability to retain senior management;

the selling cycle for our client relationships;

our ability to attract and retain clients and our ability to develop and maintain client relationships based on attractive terms;

legislation in the United States or elsewhere that adversely affects the performance of business process services offshore;

increasing competition in our industry;

telecommunications or technology disruptions or breaches, or natural or other disasters;

our ability to protect our intellectual property and the intellectual property of others;

further deterioration in the global economic environment and its impact on our clients;

regulatory, legislative and judicial developments, including the withdrawal of governmental fiscal incentives;

the international nature of our business;

technological innovation;

our ability to derive revenues from new service offerings; and

unionization of any of our employees.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements. We are under no obligation to update any of these forward-looking statements after the date of this filing to conform our prior statements to actual results or revised expectations. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-K, Form 10-Q and Form 8-K reports to the SEC.

Overview

Edgar Filing: Genpact LTD - Form 10-Q

We are a global leader in business process and technology management, offering a broad portfolio of enterprise and industry-specific services. We manage over 4,500 processes and projects for more than 600 clients worldwide. Putting process in the forefront, we couple our deep process knowledge and insights with focused information technology capabilities, targeted analytics, business consulting, domain consulting and pragmatic reengineering to deliver comprehensive solutions for clients. Lean and Six Sigma are an integral part of our culture and we view the management of business processes as a science. We have developed Smart Enterprise Processes (SEPSM), a groundbreaking, rigorously scientific methodology for managing business processes, which focuses on optimizing process effectiveness in addition to efficiency to deliver superior business outcomes. Services are seamlessly delivered from a global network of centers to meet a client's business objectives, cultural and language needs and cost reduction goals.

We have a unique heritage. We built our business by meeting the demands of the leaders of the General Electric Company, or GE, to increase the productivity of their businesses. We began in 1997 as the India-based captive business process services operation for General Electric Capital Corporation, or GE Capital, GE's financial services business. As the value of offshoring was demonstrated to the management of GE, it became a widespread practice at GE and our business grew in size and scope. We took on a wide range of complex and critical processes and we became a significant provider to many of GE's businesses, including Consumer Finance (GE Money), Commercial Finance, Healthcare, Industrial, NBC Universal and GE's corporate offices.

Our leadership team, our methods and our culture have been deeply influenced by our eight years as a captive operation of GE. Many elements of GE's success—the rigorous use of metrics and analytics, the relentless focus on improvement, a strong emphasis on the client and innovative human resources practices—are the foundations of our business.

As of June 30, 2011, we have approximately 51,300 employees with operations in fourteen countries. In the second quarter of 2011, we had net revenues of \$397.6 million, of which 69.2% was from clients other than GE, which we refer to as Global Clients.

Our registered office is located at Canon's Court, 22 Victoria Street, Hamilton HM, Bermuda.

Table of Contents**The Company*****The 2004 Reorganization***

Prior to December 30, 2004, our business was conducted through various entities and divisions of GE. On December 30, 2004, in a series of transactions we refer to as the 2004 Reorganization, GE reorganized these operations by placing them all under Genpact Global Holdings SICAR S.à.r.l., or GGH, a newly formed company. GE's affiliate, GE Capital International (Mauritius) also sold an indirect 60% interest in GGH to Genpact Investment Co. (Lux) SICAR S.à.r.l., an entity owned in equal portions by General Atlantic LLC and Oak Hill Capital Partners. Since the 2004 Reorganization, GE, through its affiliates, sold a portion of its equity in us pursuant to several separate transactions. As of June 30, 2011, GE, through its affiliates, owned 9.0% of our outstanding equity.

The 2007 Reorganization and IPO

On March 29, 2007, we formed Genpact Limited in Bermuda to be the new holding company for our business. It was initially a wholly-owned subsidiary of GGH. On July 13, 2007, we effectuated a transaction that resulted in Genpact Limited owning 100% of the capital stock of GGH. This transaction together with other related transactions is referred to as the 2007 Reorganization. As part of the 2007 Reorganization, GGH became a Bermuda company and changed its name to Genpact Global Holding (Bermuda) Limited. We use the terms Genpact, Company, we and us to refer to both GGH and its subsidiaries prior to July 13, 2007 and Genpact Limited and its subsidiaries after such date.

On August 1, 2007, we commenced an initial public offering of our common shares, pursuant to which we and certain of our existing shareholders each sold 17.65 million common shares at a price of \$14 per share. The offering resulted in gross proceeds of \$494.1 million and net proceeds to us and the selling shareholders of approximately \$233.5 million each after deducting underwriting discounts and commissions. Additionally, we incurred offering-related expenses of approximately \$9.0 million. On August 14, 2007, the underwriters exercised their option to purchase 5.29 million additional common shares from us at the initial offering price of \$14 per share to cover over-allotments resulting in additional gross proceeds of \$74.1 million and net proceeds of approximately \$70.0 million to us, after deducting underwriting discounts and commissions.

Secondary Offering

On March 24, 2010, we completed a secondary offering of our common shares, pursuant to which certain of our shareholders sold 38.64 million common shares at a price of \$15 per share, which included the underwriters exercise of their option to purchase an additional 5.04 million common shares from selling shareholders at the offering price of \$15 per share to cover over-allotments. All of the common shares were sold by our shareholders and, as a result, we did not receive any of the proceeds from the offering. We incurred offering-related costs of approximately \$0.6 million expensed and classified as other income (expense), net in the interim consolidated financial statements. Upon completion of the secondary offering, GE's shareholding declined to 9.1% and it ceased to be a significant shareholder although it continues to be a related party in accordance with the provisions of Regulation S-X Rule 1-02(s).

Acquisitions

From time to time we may make acquisitions or engage in other strategic transactions if suitable opportunities arise, and we may use cash, securities or other assets as consideration.

In January 2010, we finalized an arrangement with Walgreens, the largest drug store chain in the U.S., to acquire a delivery center in Danville, Illinois for cash consideration of \$16.3 million. At the same time, we entered into a ten year master professional service agreement, or MPSA, with Walgreens. Pursuant to the terms of the MPSA, approximately 500 Walgreens accounting employees in Danville were transferred to Genpact in May 2010. This transaction was consummated in the second quarter of 2010 upon completion of certain closing conditions and has been accounted for as a business combination in accordance with the acquisition method.

In February 2010, we acquired Symphony Marketing Solutions, Inc., or Symphony, a leading provider of analytics and data management services with domain expertise in the retail, pharmaceutical and consumer packaged goods industries for cash consideration of \$29.3 million and acquired short term liabilities of \$5.4 million. The acquisition of Symphony was accounted for as a business combination in accordance with the acquisition method.

In March 2011, we acquired Akritiv Technologies, Inc., or Akritiv, a provider of cloud-based order-to-cash (OTC) technology solutions with domain expertise in providing Software As A Service (SAAS) solutions for working capital optimization, for a cash

Table of Contents

consideration of \$1.6 million and a contingent consideration with an estimated fair value of \$1.7 million. The acquisition of Akritiv was accounted for as a business combination in accordance with the acquisition method.

In May 2011, we acquired Headstrong Corporation, or Headstrong, a global provider of comprehensive consulting and IT services with a specialized focus in capital markets and healthcare, for cash consideration of \$550 million subject to adjustment based on closing date net working capital, funded indebtedness, seller expenses and amount of cash and cash equivalents. The purchase price for the acquisition was funded with a combination of existing cash on hand and borrowings under a new credit facility.

The acquisition has been accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations in the second quarter of 2011. The following table summarizes the preliminary allocation of the preliminary estimated purchase price based on the fair value of the assets acquired and the liabilities assumed at the date of acquisition:

	(dollars in millions)
Preliminary estimated cash consideration	\$ 565.1
Acquisition related costs included in selling, general and administrative expenses	5.6
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	\$ 25.9
Current assets	62.2
Tangible fixed assets	14.6
Intangible assets	91.0
Deferred tax assets, net	18.4
Other non-current assets	12.0
Current liabilities	(42.7)
Long term liabilities	(6.3)
Total identifiable net assets assumed	\$ 175.1
Goodwill	390.0
Total	\$ 565.1

2011 Credit Facility

We obtained credit facilities aggregating \$380.0 million from a consortium of financial institutions to finance in part the acquisition of Headstrong and to provide funds for general corporate purposes, including certain working capital requirements. The credit agreement provides for a \$120.0 million term loan and a \$260.0 million revolving credit facility. We have an option to increase the commitment under the credit agreement by up to an additional \$100.0 million subject to certain approvals and conditions as set forth in the credit agreement.

Critical Accounting Policies and Estimates

For a description of our critical accounting policies, see Note 2 Summary of significant accounting policies under Item 1 Financial Statements above and Part-II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the year ended December 31, 2010.

Table of Contents**Results of Operations**

The following table sets forth certain data from our income statement for the three months and six months ended June 30, 2010 and 2011:

	Three months ended June 30,		Six months ended June 30,		% Change Increase/(Decrease)	
					Three months	Six months
	2010 (dollars in millions)	2011 (dollars in millions)	2010 (dollars in millions)	2011 (dollars in millions)	ended June 30, 2011 Vs. 2010	ended June 30, 2011 Vs. 2010
Net revenues GE	\$ 117.8	\$ 122.6	\$ 231.1	\$ 235.4	4.1%	1.9%
Net revenues Global Clients	189.8	275.0	364.7	492.8	44.9%	35.1%
Total net revenues	307.6	397.6	595.8	728.2	29.3%	22.2%
Cost of revenue	191.1	254.0	367.8	468.5	32.9%	27.4%
Gross profit	116.5	143.6	228.1	259.7	23.2%	13.9%
Gross profit Margin %	37.9%	36.1%	38.3%	35.7%		
Operating expenses						
Selling, general and administrative expenses	75.3	86.7	148.2	154.2	15.2%	4.0%
Amortization of acquired intangible assets	4.1	5.1	8.3	8.2	26.4%	(0.8)%
Other operating (income) expense, net	(1.1)	0.7	(3.9)	(0.3)	(159.9)%	(92.6)%
Income from operations	38.3	51.1	75.5	97.6	33.3%	29.1%
Income from operations % of Net revenues	12.4%	12.8%	12.7%	13.4%		
Foreign exchange (gains) losses, net	4.9	(1.1)	5.6	(2.7)	123.3%	148.3%
Other income (expense), net	0.8	3.0	2.1	6.1	258.5%	189.7%
Income before share of equity in loss of affiliates and income tax expense	34.3	55.2	72.1	106.4	61.1%	47.6%
Equity in loss of affiliates	0.3	0.1	0.6	0.3	(50.7)%	(55.9)%
Income before income tax expense	34.0	55.1	71.5	106.1	62.0%	48.5%
Income tax expense	4.9	14.4	12.1	27.5	195.1%	127.4%
Net Income	29.1	40.7	59.4	78.6	39.7%	32.4%

Table of Contents

Net income attributable to noncontrolling interest	1.3	1.7	3.4	3.5	32.3%	4.3%
Net income attributable to Genpact Limited shareholders	\$ 27.8	\$ 39.0	\$ 56.0	\$ 75.1	40.1%	34.1%
Net income attributable to Genpact Limited shareholders % of Net revenues	9.1%	9.8%	9.4%	10.3%		

Net revenues-related party disclosed in the Consolidated Statements of Income includes revenue earned from GE and its affiliates; a client in which one of our directors has a controlling interest; and a client which has a significant interest in the Company. The revenue earned from these clients is included in Net revenues-Global Clients in the table above.

Table of Contents**Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010**

Net revenues. Our net revenues increased by \$90.0 million, or 29.3%, in the second quarter of 2011 to \$397.6 million compared to \$307.6 million in the second quarter of 2010. Our growth in net revenues is primarily a result of an increase in Genpact business process management services for Global Clients as well as the acquisition of Headstrong. Growth in net revenues also reflects the strengthening of the Australian dollar, euro and the Japanese yen against the U.S. dollar, as a portion of our revenues are received in such currencies. Our average headcount increased by 14.2% to approximately 46,000 employees in the second quarter of 2011 up from approximately 40,300 employees in the second quarter of 2010. Our average revenue per employee increased to approximately \$35.0 thousand in the second quarter of 2011 from approximately \$30.5 thousand in the second quarter of 2010. Approximately two-thirds of the increase in average revenue per employee is attributable to the acquisition of Headstrong.

Revenues from business process management services as a percentage of total net revenues decreased to 78.1% in the second quarter of 2011 from 85.9% in the second quarter of 2010. Revenues from business process management grew 17.5% to \$310.6 million in the second quarter of 2011 from \$264.4 million in the second quarter of 2010, primarily led by growth in revenues from Global Clients including revenues from Headstrong business consulting services. In addition, our service offerings for GE Corporate, GE Commercial Finance and GE Infrastructure grew in the second quarter of 2011 compared to the second quarter of 2010. Revenue from our information technology business increased by \$43.7 million, or 101.0%, in the second quarter of 2011 compared to the second quarter of 2010, primarily driven by the acquisition of Headstrong. Non-Headstrong information technology services revenue increased by 4.8% in the second quarter of 2011 compared to the second quarter of 2010. As a percentage of net revenues, revenue from our information technology business increased to 21.9% in the second quarter of 2011 up from 14.1% in the second quarter of 2010.

Net revenues from GE increased by \$4.8 million, or 4.1%. As described under Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Classification of Certain Net Revenues in our Annual Report on Form 10-K for the year ended December 31, 2010, certain businesses in which GE ceased to be a 20% shareholder are classified as GE net revenues for part of the year until the divestiture by GE and as Global Clients net revenues after the divestiture by GE. GE revenues for the second quarter of 2011 increased by 4.9% over the second quarter of 2010 after excluding such dispositions by GE in 2010. This increase was driven by growth in business process management services across GE businesses. As a result of higher growth in revenues from Global Clients, GE net revenues declined as a percentage of our total net revenues from 38.3% in the second quarter of 2010 to 30.8% in the second quarter of 2011.

Net revenues from Global Clients increased by \$85.1 million, or 44.9%, compared to the second quarter of 2010. 53.0% of the increase in net revenues from Global Clients is attributable to Headstrong. \$28.2 million, or 33.1%, of the increase in net revenues from Global Clients was from clients in the consumer product goods, retail, business services, pharmaceutical and healthcare industries. \$13.2 million, or 15.5%, of the increase in net revenues from Global Clients was from clients in the banking, financial services and insurance industries. This increase in net revenues from Global Clients was partially offset by a marginal decline in net revenues from clients in the auto industry. A portion of the increase in net revenues from Global Clients was also related to GE ceasing to be a 20% shareholder in certain businesses and the reclassification of related net revenues of \$0.9 million as described above. As a percentage of total net revenues, net revenues from Global Clients increased from 61.7% in the second quarter of 2010 to 69.2% in the second quarter of 2011.

Cost of revenue. The following table sets forth the components of our cost of revenue:

	Three Months Ended June 30,		% Change
	2010	2011	Increase/(Decrease)
	(dollars in millions)		2011 vs. 2010
Personnel expenses	\$ 121.3	\$ 168.1	38.6%
Operational expenses	56.4	72.5	28.5
Depreciation and amortization	13.3	13.4	0.4
Cost of revenue	\$ 191.1	\$ 254.0	32.9%
Cost of revenue as a % of total net revenues	62.1%	63.9%	

Cost of revenue increased by \$62.9 million, or 32.9%. The increase in cost of revenue is attributable to increased personnel and operational expenses as a result of the acquisition of Headstrong as well as due to the general growth of our business.

Table of Contents

Approximately 43.0% of the increase in cost of revenue relates to the acquisition of Headstrong. \$11.0 million, or 17.4%, of the increase in cost of revenue relates to higher facility and infrastructure related expenses, consultancy charges recoverable from clients, travel and living, communication and other expenses. It also reflects a higher allocation of such costs to cost of revenue instead of selling, general and administrative expenses due to the growth in operations personnel compared to a decline in support personnel. The remaining increase in cost of revenue was due to an increase in personnel expenses on account of increased headcount and wage inflation partially offset by a decrease in cost of revenue on account of higher realization on our contracted India rupee-U.S. dollar hedges in the second quarter of 2011 compared to the second quarter of 2010. As a result, our cost of revenue as a percentage of net revenues increased from 62.1% in the second quarter of 2010 to 63.9% in the second quarter of 2011.

The largest component of the increase in cost of revenue was personnel expenses, which increased by \$46.8 million, or 38.6%. 40.0% of the increase in personnel expenses relates to the acquisition of Headstrong. The increase in personnel expenses was also due to the hiring of new resources to manage growth, overall wage inflation and an increase in the number of onshore resources which are generally more expensive than offshore resources. In addition, revenues from our re-engineering, analytics and risk consulting business, which has higher compensation and benefit costs, increased faster than revenues from other businesses and the increase in costs for such businesses was in line with the increase in revenues. This increase was partially offset by foreign exchange volatility as described above. Our average operational headcount increased by approximately 6,700 employees, or 19.7%, in the second quarter of 2011 compared to the second quarter of 2010, as discussed above. As a result, our personnel expenses as a percentage of net revenues increased from 39.4% in the second quarter of 2010 to 42.3% in the second quarter of 2011.

Operational expenses increased by \$16.1 million, or 28.5%. Approximately half of the increase in operational expenses relates to the acquisition of Headstrong. The increase in operational expenses in the second quarter of 2011 was also due to higher infrastructure costs in the second quarter of 2011 as a result of the expansion of infrastructure and IT related facilities over the last twelve months in Gurgaon and Kolkata, India, the Americas and the Philippines. The increase was also on account of the increase in consultancy charges recoverable from clients, communication costs, business related travel costs, and higher allocation of such costs to cost of revenue due to the growth in operations personnel compared to a decline in support personnel, partially offset by the foreign exchange volatility as described above. As a result, the operational expenses as a percentage of net revenues decreased marginally from 18.3% in the second quarter of 2010 to 18.2% in the second quarter of 2011.

Depreciation and amortization expenses increased marginally by \$0.1 million, or 0.4%. This increase was largely due to the acquisition of Headstrong. This increase was partially offset by the foreign exchange volatility as described above. As a percentage of net revenues, depreciation and amortization expenses declined to 3.4% in the second quarter of 2011 from 4.3% in the second quarter of 2010.

As a result of the foregoing, our gross profit increased by \$27.1 million, or 23.2%, and our gross margin decreased from 37.9% in the second quarter of 2010 to 36.1% in the second quarter of 2011.

Selling, general and administrative expenses. The following table sets forth the components of our selling, general and administrative expenses:

	Three Months Ended June 30,		% Change
	2010	2011	Increase/(Decrease)
	(dollars in millions)		2011 vs. 2010
Personnel expenses	\$ 52.6	\$ 59.4	12.9%
Operational expenses	19.9	25.3	27.0
Depreciation and amortization	2.8	2.0	(26.9)
Selling, general and administrative expenses	\$ 75.3	\$ 86.7	15.2%
SG&A as a % of total net revenues	24.5%	21.8%	

Selling, general and administrative expenses, or SG&A expenses, increased by \$11.4 million, or 15.2%. This increase in SG&A expenses was primarily due to the acquisition of Headstrong in the second quarter of 2011 contributing approximately 86.7% of the increase in selling, general and administrative expenses, and expenses relating to the acquisition amounting to \$4.7 million. This increase was partially offset by higher realization on our contracted Indian rupee-U.S. dollar hedges in the second quarter of 2011 compared to the second quarter of 2010. As a result, as a percentage of net revenues, SG&A expenses decreased from 24.5% in the second quarter of 2010 to 21.8% in the second quarter of 2011.

Table of Contents

Personnel expenses increased by \$6.8 million, or 12.9%. The increase in personnel expenses is due to the acquisition of Headstrong. This was partially offset by the foreign exchange volatility as described above. As a percentage of net revenues, personnel expenses decreased from 17.1% in the second quarter of 2010 to 14.9% in the second quarter of 2011.

The operational expenses component of SG&A expenses increased by \$5.4 million, or 27.0%. Approximately one-third of the increase in operational expenses is attributable to Headstrong. In addition, we incurred approximately \$4.7 million of expenses related to the acquisition of Headstrong. This increase has been partially offset by cost rationalization measures in overhead expenses and foreign exchange volatility as described above, and a decline in support personnel compared to an increase in operations personnel in the second quarter of 2011 resulting in reduced allocation to SG&A expenses. As a result, operational expenses as a percentage of net revenues decreased from 24.5% in the second quarter of 2010 to 21.8% in the second quarter of 2011.

Depreciation and amortization expenses as a component of SG&A expenses decreased by \$0.7 million to \$2.0 million in the second quarter of 2011. This decrease in depreciation and amortization expenses is due to a decline in support personnel forming part of SG&A expenses compared to increase in operations personnel forming part of cost of revenues in the second quarter of 2011, and consequent reduced allocation to SG&A expenses. This decrease has been partially offset by an increase in depreciation and amortization expenses relating to the acquisition of Headstrong.

Amortization of acquired intangibles. In the second quarter of 2010 and 2011, we incurred non-cash charges of \$4.1 million and \$5.1 million, respectively. As a result of the acquisition of Headstrong, amortization of acquired intangibles increased by \$2.0 million and this increase was partially offset by \$1.0 million decline in the amortization of acquired intangibles resulting from the 2004 Reorganization, consistent with the amortization schedule.

Other operating (income) expense, net. Other operating income, consisting primarily of income from shared services from GE for the use of our Delivery Centers and certain support functions that GE manages and operates with its own employees, decreased to \$0.7 million loss in the second quarter of 2011 compared to \$1.1 million income in the second quarter of 2010. The decline was primarily due to impairment of certain capital work in progress items. We do not recognize the shared services income as net revenues because it is not currently one of our primary service offerings; however, our costs are included in cost of revenue and SG&A.

Income from operations. As a result of the foregoing factors, income from operations increased by \$12.8 million to \$51.1 million in the second quarter of 2011. As a percentage of net revenues, income from operations increased from 12.4% in the second quarter of 2010 to 12.8% in the second quarter of 2011.

Foreign exchange (gains) losses, net. We recorded a foreign exchange gain of \$1.1 million in the second quarter of 2011, primarily due to the re-measurement of our foreign currency assets and liabilities and related foreign exchange contracts resulting from movements in the Indian rupee and U.S. dollar exchange rates in the second quarter of 2011 compared to a foreign exchange loss of \$4.9 million in the second quarter of 2010.

Other income (expense), net. The following table sets forth the components of other income (expense), net:

	Three Months ended June 30,		% Change Increase/(Decrease) 2011 vs. 2010
	2010 (dollars in millions)	2011	
Interest income	\$ 0.7	\$ 3.6	413.8%
Interest expense	(0.5)	(1.9)	264.7
Other income	0.7	1.4	101.6
Other income (expense), net	\$ 0.8	\$ 3.0	258.8%
Other income (expense), net as a % of total net revenues	0.3%	0.8%	

We recorded interest and other income, net of interest expense, of \$3.0 million in the second quarter of 2011 compared to \$0.8 million in the second quarter of 2010. The change was driven by an increase in interest income due to increased investment in higher interest bearing bank deposits in the second quarter of 2011 compared to the second quarter of 2010, interest income on an income tax refund received in the second

Edgar Filing: Genpact LTD - Form 10-Q

quarter of 2011 and certain incentives given by the Chinese government in the second quarter of 2011. This increase in interest and other income was partially offset by an increase in interest expense due to borrowings under our new credit facility. As a result of these borrowings, the weighted average rate of interest with respect to outstanding debt under our credit facility increased from 1.0% in the second quarter of 2010 to 1.8% in the second quarter of 2011.

Table of Contents

Income before share of equity in loss of affiliates and income tax expense. As a result of the foregoing factors, income before share of equity in loss of affiliates and income tax expense increased by \$20.9 million. As a percentage of net revenues, income before share of equity in loss of affiliates and income tax expense increased from 11.1% in the second quarter of 2010 to 13.9% in the second quarter of 2011.

Equity in loss of affiliates. This represents our share of loss from our non-consolidated affiliates, NGEN Media Services Private Limited, a joint venture with NDTV Networks Plc., NIIT Uniqua, a joint venture with NIIT, one of the largest training institutes in Asia, and High Performance Partners.

Income before income tax expense. As a result of the foregoing factors, income before income tax expense increased by \$21.1 million. As a percentage of net revenues, income before income tax expense increased from 11.1% of net revenues in the second quarter of 2010 to 13.9% of net revenues in the second quarter of 2011.

Income tax expense. Our income tax expense increased from \$4.9 million in the second quarter of 2010 to \$14.4 million in the second quarter of 2011. This increase is primarily driven by the complete sunset of the India tax holiday under the STPI regime for remaining exempt locations effective March 31, 2011 and by higher tax rates applicable to Headstrong as a result of its jurisdictional mix of income.

Net income. As a result of the foregoing factors, net income increased by \$11.6 million from \$29.1 million in the second quarter of 2010 to \$40.7 million in the second quarter of 2011. As a percentage of net revenues, our net income was 9.5% in the second quarter of 2010 and 10.2% in the second quarter of 2011.

Net income attributable to noncontrolling interest. The noncontrolling interest is primarily due to the acquisition of E-Transparent B.V. and certain related entities, or ICE, in 2007. It primarily represents the apportionment of profits to the minority partners of ICE. The net income attributable to noncontrolling interest increased from \$1.3 million in the second quarter of 2010 to \$1.7 million in the second quarter of 2011.

Net income attributable to Genpact Limited shareholders. As a result of the foregoing factors, net income attributable to Genpact Limited shareholders increased by \$11.2 million from \$27.8 million in the second quarter of 2010 to \$39.0 million in the second quarter of 2011. As a percentage of net revenues, our net income was 9.1% in the second quarter of 2010 and 9.8% in the second quarter of 2011.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

Net revenues. Our net revenues increased by \$132.3 million, or 22.2%, in the first half of 2011 to \$728.2 million compared to \$595.8 million in the first half of 2010. Our growth in net revenues is primarily a result of an increase in Genpact business process management services for Global Clients as well as the acquisition of Headstrong. Growth in net revenues also reflects the strengthening of the Australian dollar, Japanese yen and euro against the U.S. dollar, as a portion of our revenues are received in such currencies. Our average headcount increased by 13.4% to approximately 44,700 employees in the first half of 2011 up from approximately 39,400 employees in the first half of 2010. Our average revenue per employee increased to approximately \$34.5 thousand in the first half of 2011 from approximately \$30.3 thousand in the first half of 2010. Approximately three-fourths of the increase in average revenue per employee is contributed by the acquisition of Headstrong.

Revenues from business process management services as a percentage of total net revenues decreased to 82.2% in the first half of 2011 from 85.6% in the first half of 2010. Revenues from business process management grew 17.4% to \$598.7 million in the first half of 2011 from \$510.0 million in the first half of 2010, primarily led by growth in revenues from Global Clients including revenues from Headstrong business consulting services. Revenue from our information technology business increased by \$43.6 million, or 50.8%, in the first half of 2011 compared to the first half of 2010, primarily driven by the acquisition of Headstrong. Non-Headstrong information technology services revenue increased by 2.3% in the first half of 2011 compared to the first half of 2010. As a percentage of net revenues, revenue from our information technology business increased to 17.8% in the first half of 2011 up from 14.4% in the first half of 2010.

Net revenues from GE increased by \$4.3 million, or 1.9%. As described under Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Classification of Certain Net Revenues in our Annual Report on Form 10-K for the year ended December 31, 2010, certain businesses in which GE ceased to be a 20% shareholder are classified as GE net revenues for part of the year until the divestiture by GE and as Global Clients net revenues after the divestiture by GE. GE revenues for the first half of 2011 increased by 2.9% over the first half of 2010 after excluding such dispositions by GE in 2010. This increase was primarily driven by growth in business process management services and the remaining increase is on account of growth in information technology services across GE businesses. As a result of the higher growth in revenues from Global Clients, GE net revenues declined as a percentage of our total net revenues from 38.8% in the first half of 2010 to 32.3% in the first half of 2011.

Table of Contents

Net revenues from Global Clients increased by \$128.0 million, or 35.1% compared to the first half of 2010. \$57.7 million, or 45.1%, of the increase in net revenues from Global Clients was from clients in the consumer product goods, retail, business services, pharmaceutical and healthcare industries. 35.3% of the increase in net revenues from Global Clients is attributable to Headstrong. \$26.6 million, or 20.8%, of the increase in net revenues from Global Clients was from clients in the banking, financial services and insurance industries. This increase in net revenues from Global Clients was partially offset by a marginal decline in net revenues from clients in the auto industry. A portion of the increase in net revenues from Global Clients was also related to GE ceasing to be a 20% shareholder in certain businesses and the reclassification of related net revenues of \$2.3 million as described above. As a percentage of total net revenues, net revenues from Global Clients increased from 61.2% in the first half of 2010 to 67.7% in the first half of 2011.

Cost of revenue. The following table sets forth the components of our cost of revenue:

	Six Months Ended June 30,		% Change
	2010	2011	Increase/(Decrease)
	(dollars in millions)		2011 vs. 2010
Personnel expenses	\$ 236.3	\$ 311.9	32.0%
Operational expenses	105.8	130.1	22.9
Depreciation and amortization	25.6	26.6	3.6
Cost of revenue	\$ 367.8	\$ 468.5	27.4%
Cost of revenue as a % of total net revenues	61.7%	64.3%	

Cost of revenue increased by \$100.7 million, or 27.4%. This increase in cost of revenue is due to higher personnel and operational expenses on account of increased headcount and infrastructure costs. The increase also relates to the general growth of our business, cost of headcount and facilities acquired due to the acquisition of Headstrong in the second quarter of 2011 and another business comprising of facility and staff acquired in Danville, Illinois in the second quarter of 2010.

Approximately 37.0% of the increase in cost of revenue relates to acquisitions as mentioned above. \$17.6 million, or 17.5%, of the increase in cost of revenue relates to higher facility and infrastructure related expenses, business related travel and communication expenses. It also reflects a higher allocation of such costs to cost of revenue instead of selling, general and administrative expenses due to the growth in operations personnel compared to a decline in support personnel. The remaining increase in cost of revenue was due to an increase in personnel expenses on account of increased headcount and wage inflation partially offset by a decrease in cost of revenue on account of higher realization on our contracted India rupee-U.S. dollar hedges in the first half of 2011 compared to the first half of 2010. As a result, our cost of revenue as a percentage of net revenues increased from 61.7% in the first half of 2010 to 64.3% in the first half of 2011.

The largest component of the increase in cost of revenue was personnel expenses, which increased by \$75.6 million, or 32.0%. 35.8% of the increase relates to acquisitions as mentioned above. The increase was also due to the hiring of new resources to manage growth, overall wage inflation and an increase in the number of onshore resources which are generally more expensive than offshore resources. In addition, revenues from our re-engineering, analytics and risk consulting business, which has higher compensation and benefit costs, increased faster than revenues from our other businesses and the increase in costs for such businesses was in line with the increase in revenues. The increase in cost of revenue was partially offset by foreign exchange volatility as described above. Our average operational headcount increased by approximately 6,700 employees, or 20.4%, in the first half of 2011 compared to the first half of 2010. As a result, our personnel expenses as a percentage of net revenues increased from 39.7% in the first half of 2010 to 42.8% in the first half of 2011.

Operational expenses increased by \$24.3 million, or 22.9%. Approximately 37.7% of the increase in operational expenses is on account of acquisitions as mentioned above. The increased operational expenses in the first half of 2011 were also on account of higher infrastructure costs compared to the first half of 2010, as a result of a one time benefit we received in the first half of 2010 on renegotiation of certain contracts related to facilities in India, and expansion of infrastructure and IT related facilities over the last twelve months in Gurgaon and Kolkata, India, the Philippines and the Americas. The increase was also on account of the increase in communication costs, business related travel costs and higher allocation to cost of revenue due to the growth in operations personnel compared to a decline in support personnel, partially offset by the foreign exchange volatility as described above. As a result, the operational expenses as a percentage of net revenues increased from 17.8% in the first half of 2010 to 17.9% in the first half of 2011.

Table of Contents

Depreciation and amortization expenses increased by \$0.9 million, or 3.6%. This increase was largely due to acquisitions as mentioned above. The increase was also on account of expansion of existing Delivery Centers, infrastructure and IT related facilities in India, the Philippines and the Americas to support growth, offset by foreign exchange volatility as described above. As a percentage of net revenues, depreciation and amortization expenses declined to 3.6% in the first half of 2011 from 4.3% in the first half of 2010.

As a result of the foregoing, our gross profit increased by \$31.6 million, or 13.9%, and our gross margin decreased from 38.3% in the first half of 2010 to 35.7% in the first half of 2011.

Selling, general and administrative expenses. The following table sets forth the components of our selling, general and administrative expenses:

	Six Months Ended June 30,		% Change
	2010	2011	Increase/(Decrease)
	(dollars in millions)		2011 vs. 2010
Personnel expenses	\$ 103.9	\$ 107.0	2.9%
Operational expenses	38.6	43.4	12.6
Depreciation and amortization	5.7	3.8	(33.1)
Selling, general and administrative expenses	\$ 148.2	\$ 154.2	4.0%
SG&A as a % of total net revenues	24.9%	21.2%	

Selling, general and administrative expenses, or SG&A expenses, increased by \$6.0 million, or 4.0%. This increase in SG&A expenses was due to the acquisition of Headstrong in the second quarter of 2011 and another business comprising of facility and staff acquired in Danville, Illinois in the second quarter of 2010. This increase in SG&A expenses was partially offset by cost reduction measures such as restriction on travel, recruitment, thereby more effective utilization and deployment of support personnel. The increase in SG&A expenses was also partially offset by the reduced allocation to SG&A expenses on account of decline in the support personnel compared to increase in operations personnel and higher realization on our contracted Indian rupee-U.S. dollar hedges in the first half of 2011 compared to the first half of 2010. In addition, our average support headcount decreased in the first half of 2011 in comparison to the first half of 2010. As a result, as a percentage of net revenues, SG&A expenses decreased from 24.9% in the first half of 2010 to 21.2% in the first half of 2011.

Personnel expenses increased by \$3.0 million, or 2.9%. The increase in personnel expenses is due to the above mentioned acquisitions and this was partially offset by the decrease in support personnel and foreign exchange volatility as described above. The increase in personnel expenses has also been partially offset by a reduction in stock based compensation from \$8.7 million in the first half of 2010 to \$6.6 million in the first half of 2011, due to an adjustment made in the first half of 2011 for higher forfeitures. As a percentage of net revenues, personnel expenses decreased from 17.4% in the first half of 2010 to 14.7% in the first half of 2011.

The operational expenses component of SG&A expenses increased by \$4.9 million, or 12.6%. Approximately 58.6% of the increase in operational expenses is attributable to the acquisitions as mentioned above. In addition, we incurred approximately \$5.6 million in expenses related to the acquisition of Headstrong. This increase has been partially offset by cost rationalization measures in overhead expenses and foreign exchange volatility as described above and a decline of support personnel compared to an increase in operations personnel in the first half of 2011 resulting in reduced allocation to SG&A expenses. As a result, operational expenses as a percentage of net revenues decreased from 6.5% in the first half of 2010 to 6.0% in the first half of 2011.

Depreciation and amortization expenses as a component of SG&A expenses decreased by \$1.9 million to \$3.8 million in the first half of 2011. This decrease in depreciation and amortization expenses is primarily due to a decline in support personnel forming part of SG&A expenses compared to an increase in operations personnel forming part of cost of revenue in the first half of 2011, and consequent reduced allocation to SG&A expenses.

Amortization of acquired intangibles. In the first half of 2010 and 2011, we incurred non-cash charges of \$8.3 million and \$8.2 million, respectively. As a result of the acquisition of Headstrong in the second quarter of 2011, amortization of acquired intangibles

Table of Contents

increased by \$2.0 million and this increase was offset by a decline in the amortization of acquired intangibles resulting from the 2004 Reorganization, consistent with the amortization schedule.

Other operating (income) expense, net. Other operating income, consisting primarily of income from shared services from GE for the use of our Delivery Centers and certain support functions that GE manages and operates with its own employees, decreased to \$0.3 million in the first half of 2011 compared to \$3.9 million in the first half of 2010. This decline was due to reversal of the provision of \$1.3 million in the first half of 2010 for employee related statutory liabilities in one of our subsidiaries and impairment of capital work in progress of \$1.5 million in the second quarter of 2011. We do not recognize the shared services income as net revenues because it is not currently one of our primary service offerings; however, our costs are included in cost of revenue and SG&A.

Income from operations. As a result of the foregoing factors, income from operations increased by \$22.0 million to \$97.6 million in the first half of 2011. As a percentage of net revenues, income from operations increased from 12.7% in the first half of 2010 to 13.4% in the first half of 2011.

Foreign exchange (gains) losses, net. We recorded a foreign exchange gain of \$2.7 million in the first half of 2011, primarily due to the re-measurement of our foreign currency assets and liabilities and related foreign exchange contracts resulting from movements in the Indian rupee and U.S. dollar exchange rates in the first half of 2011 compared to a foreign exchange loss of \$5.6 million in the first half of 2010, which also included the impact of the discontinuance of certain cash flow hedges in the first half of 2010.

Other income (expense), net. The following table sets forth the components of other income (expense), net:

	Six Months ended June 30,		% Change
	2010	2011	Increase/(Decrease) 2011 vs. 2010
Interest income	\$ 2.0	\$ 7.2	250.5%
Interest expense	(1.1)	(2.6)	135.3
Secondary offering expenses	(0.6)		(100.0)
Other income	1.8	1.6	(11.7)
Other income (expense), net	\$ 2.1	\$ 6.1	189.7%

Other income (expense), net as a % of total net revenues **0.4%** **0.8%**

We recorded other income, including interest income, net of interest expense, of \$6.1 million in the first half of 2011 compared to \$2.1 million in the first half of 2010. The change was driven by an increase in interest income due to increased investment in higher interest bearing bank deposits in the first half of 2011 compared to the first half of 2010, interest income on an income tax refund received in the first half of 2011 and certain incentives given by the Chinese government in the first half of 2011. This increase in interest income was partially offset by increase in interest expense due to borrowings under our new credit facility. As a result of these borrowings, the weighted average rate of interest with respect to outstanding debt under our credit facility increased from 1.0% in the first half of 2010 to 1.8% in the first half of 2011.

Income before share of equity in loss of affiliates and income tax expense. As a result of the foregoing factors, income before share of equity in loss of affiliates and income tax expense increased by \$34.3 million. As a percentage of net revenues, income before share of equity in loss of affiliates and income tax expense increased from 12.1% in the first half of 2010 to 14.6% in the first half of 2011.

Equity in loss of affiliates. This represents our share of loss from our non-consolidated affiliates, NGEN Media Services Private Limited, a joint venture with NDTV Networks Plc., NIIT Uniqua, a joint venture with NIIT, one of the largest training institutes in Asia, and High Performance Partners.

Income before income tax expense. As a result of the foregoing factors, income before income tax expense increased by \$34.7 million. As a percentage of net revenues, income before income tax expense increased from 12.0% of net revenues in the first half of 2010 to 14.6% of net revenues in the first half of 2011.

Income tax expense. Our income tax expense increased from \$12.1 million in the first half of 2010 to \$27.5 million in the first half of 2011. This increase is primarily driven by the complete sunset of the India tax holiday under the STPI regime for remaining

Table of Contents

exempt locations effective March 31, 2011 and by higher tax rates applicable to Headstrong as a result of its jurisdictional mix of income.

Net income. As a result of the foregoing factors, net income increased by \$19.3 million from \$59.4 million in the first half of 2010 to \$78.6 million in the first half of 2011. As a percentage of net revenues, our net income was 10.0% in the first half of 2010 and 10.8% in the first half of 2011.

Net income attributable to noncontrolling interest. The noncontrolling interest is primarily due to the acquisition of E-Transparent B.V. and certain related entities, or ICE, in 2007. It primarily represents the apportionment of profits to the minority partners of ICE. The net income attributable to noncontrolling interest increased from \$3.4 million in the first half of 2010 to \$3.5 million in the first half of 2011.

Net income attributable to Genpact Limited shareholders. As a result of the foregoing factors, net income attributable to Genpact Limited shareholders increased by \$19.1 million from \$56.0 million in the first half of 2010 to \$75.1 million in the first half of 2011. As a percentage of net revenues, our net income was 9.4% in the first half of 2010 and 10.3% in the first half of 2011.

Table of Contents**Liquidity and Capital Resources****Overview**

Information about our financial position as of December 31, 2010 and June 30, 2011 is presented below:

	As of December 31, 2010	As of June 30, 2011	% Change Increase/(Decrease)
	(dollars in millions)		
Cash and cash equivalents	\$ 404.0	\$ 336.4	(16.7)%
Short-term investment	77.0		(100.0)
Short-term borrowings		252.0	100.0
Long-term debt due within one year	25.0	28.8	15.6
Long-term debt other than the current portion		88.5	100.0
Genpact Limited total shareholders equity	\$ 1,478.7	\$ 1,627.0	10.0%

Financial Condition

We finance our operations and our expansion with cash from operations and short-term borrowing facilities. We also incurred \$120.0 million of long-term debt to finance in part the acquisition of Headstrong.

Our cash and cash equivalents were \$336.4 million as of June 30, 2011 compared to \$404.0 million as of December 31, 2010. Our cash and cash equivalents as of June 30, 2011 were comprised of (a) \$132.3 million in cash in current accounts across all operating locations to be used for working capital and immediate capital requirements, (b) \$203.4 million in term deposits with banks to be used for medium term planned expenditure and capital requirements, and (c) \$0.7 million as restricted cash balance.

We sold \$129.5 million of U.S. Treasury bills in the second quarter of 2011 to finance in part the acquisition of Headstrong and do not have any balance in U.S. treasury bills as of June 30, 2011 compared to \$77.0 million of U.S. Treasury bills held as of December 31, 2010 and \$129.5 million of U.S. Treasury bills as of March 31, 2011.

We expect that in the future our cash from operations, cash reserves and debt capacity will be sufficient to finance our operations as well as our growth and expansion. Our working capital needs are primarily to finance our payroll and other related administrative and information technology expenses in advance of the receipt of accounts receivable. Our capital requirements include the opening of new Delivery Centers, as well as financing acquisitions.

Cash flows from operating, investing and financing activities, as reflected in our consolidated statements of cash flows, are summarized in the following table:

	Six Months Ended June 30, 2010	2011	% Change Increase/(Decrease)
	(dollars in millions)		
Net cash provided by (used in)			
Operating activities	\$ 10.0	\$ 82.0	723.4%
Investing activities	18.1	(495.7)	(2831.5)
Financing activities	(14.6)	340.0	2427.0
Net increase (decrease) in cash and cash equivalents	\$ 13.5	\$ (73.7)	(646.0)%

Cash flows from operating activities. Our net cash generated from operating activities was \$82.0 million in the first half of 2011 compared to \$10.0 million in the first half of 2010. Our net income adjusted for amortization and depreciation and other non-cash items increased by \$23.5 million. The increase was also on account of better collections of accounts receivable by \$10.6 million primarily due to improved receivables management and relatively consistent days sales outstanding in the first half of 2011 compared to increasing days sales outstanding in the first

Edgar Filing: Genpact LTD - Form 10-Q

half of 2010. In addition, \$30.4 million of the increase was attributable to better management of vendor payables including an increase in payable days and changes in employee related accruals primarily attributable to the Headstrong acquisition and incentives. Further, this increase was also due to reduction in payables in the first half of 2010 attributable to renegotiation of certain vendor contracts and changes in employee programs and policies.

Cash flows from investing activities. Our net cash used in investing activities was \$495.7 million in the first half of 2011 compared to \$18.1 million of net cash provided by investing activities in the first half of 2010. This was primarily due to payment of \$561.1 million, net of cash acquired, for the acquisitions of Headstrong and Akritiv in the first half of 2011 compared to \$42.6 million

Table of Contents

paid for business acquisitions, net of cash acquired in the first half of 2010. We received \$77.0 million from the sale of U.S. treasury bills, net of purchases, during the first half of 2011, compared to net realization of \$89.6 million from the sale of U.S. Treasury bills and \$9.8 million from redemption of deposits with GE India during the first half of 2010. We sold U.S. treasury bills in the second quarter of 2011 to finance in part the acquisition of Headstrong. In addition, we paid \$12.1 million in the first half of 2011 for purchases of property, plant and equipment compared to \$36.9 million in the first half of 2010, primarily driven by better planning and utilization of existing infrastructure (including IT) to create capacity.

Cash flows from financing activities. Our net cash provided by financing activities was \$340.0 million in the first half of 2011, compared to \$14.6 million of cash used in financing activities in the first half of 2010. The increase was primarily due to proceeds received from short term borrowings (net of repayments) of \$252.0 million and long-term debt (net of repayment of \$25.0 million due under the credit agreement terminated in April 2011) of \$95.0 million compared to repayment of \$0.2 million of short term debt and \$20.0 million of long term debt as part of our scheduled repayments under our credit agreement in the first half of 2010. In addition, we paid the non controlling partners of ICE \$3.2 million in the six months ended June 30, 2011 compared to \$3.5 million in the six months ended June 30, 2010. We received \$6.0 million as proceeds from the issuance of common shares on exercise of employee stock options in the six months ended June 30, 2011 compared to \$11.8 million in the six months ended June 30, 2010. We also paid \$8.3 million in expenses directly relating to the new credit facility entered into during the second quarter of 2011.

Financing Arrangements

On April 29, 2011, we terminated a credit agreement which had an outstanding term loan of \$12.5 million and a revolving credit facility of \$145.0 million. On May 3, 2011, we entered into a new credit agreement of \$380.0 million consisting of a \$120.0 million term loan and a \$260.0 million revolving credit facility. Borrowings under the new credit agreement bear interest at a rate equal to LIBOR plus an applicable margin equal to 1.65% per annum. The revolving credit commitments under the credit agreement are subject to a commitment fee equal to 0.70% on the actual daily amount by which the aggregate revolving commitments exceed the sum of outstanding revolving and swing line loans and letter of credit obligations.

Total long-term debt excluding capital lease obligations was \$117.3 million as of June 30, 2011 compared to \$25.0 million as of December 31, 2010. The increase in long-term debt (net of repayment) is due to new borrowings to finance in part the acquisition of Headstrong. The weighted average rate of interest with respect to outstanding debt under the credit facility was 1.0% and 1.8% for the six months ended June 30, 2010 and 2011, respectively. In addition, we must comply with covenants pertaining to interest coverage, leverage and the positive net worth of our Indian business. This debt is also secured by a pledge on certain of our property and assets including equipment, accounts receivable, bank accounts and other current and non current assets. For the quarter ended June 30, 2011, we are in material compliance with all the covenants and undertakings described above.

We finance our short-term working capital requirements through cash flow from operations and credit facilities from banks and financial institutions. As of June 30, 2011, short-term credit facilities available to us aggregated \$260.0 million, which are under the same agreement as our new long-term debt facility. Out of this, a total of \$259.0 million was utilized, representing a funded drawdown of \$252.0 million and non-funded drawdown of \$7.0 million. In addition, we have fund-based and non-fund-based credit facilities of \$17.4 million with banks for operational requirements, out of which a total of \$4.0 million was utilized which represented non funded drawdown.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements consist of certain operating leases. For additional information, see [Contractual Obligations](#) below.

Contractual Obligations

The following table sets forth our total future contractual obligations as of June 30, 2011:

	Less than 1 year	1-3 years	3-5 years	After 5 years	Total
Short-term borrowings	\$ 252.0	\$	\$	\$	\$ 252.0
Long-term debt	28.8	43.9	44.6		117.3
Capital leases	2.2	1.8	0.2		4.2

Edgar Filing: Genpact LTD - Form 10-Q

Operating leases	35.0	54.1	40.3	30.4	159.8
Purchase obligations	9.5				9.5
Capital commitments net of advances	6.8				6.8
Other long-term liabilities	23.9	19.7	0.9		44.5
Total contractual cash obligations	\$ 358.3	\$ 119.5	\$ 86.0	\$ 30.4	\$ 594.2

Table of Contents***Recent Accounting Pronouncements******Recently adopted accounting pronouncements***

For a description of recently adopted accounting pronouncements, see Note 2 *Recently adopted accounting pronouncements* under Item 1 *Financial Statements* above and Part-II Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates* in our Annual Report on Form 10-K for the year ended December 31, 2010.

Recently issued accounting pronouncements

In May 2011, the FASB issued amendments to the existing guidance on fair value measurement in Accounting Standards Update No. 2011-04 *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments are intended to create consistency between U.S. generally accepted accounting standards and International Financial Reporting Standards on measuring fair value and disclosing information about fair value measurements. The amendments clarify the application of existing fair value measurement requirements including (i) the application of the highest and best use valuation premise concepts, (ii) measuring the fair value of an instrument classified in a reporting entity's shareholders' equity, and (iii) quantitative information required for fair value measurements categorized within Level 3. In addition, the amendments require additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The amendments in this Update are effective for fiscal years, and interim periods beginning on or after December 15, 2011, which for the Company is the first quarter of 2012. These changes are required to be applied prospectively. The Company does not expect a significant impact upon adoption of the provisions of the FASB guidance on the Company's consolidated financial statements.

In June 2011, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update No. 2011-05 *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* an amendment to the existing guidance on the presentation of comprehensive income. Under the amended guidance, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option in U.S. GAAP to present other comprehensive income in the statement of changes in equity. The amendments in this Update are effective on a retrospective basis for fiscal years, and interim periods within those years, beginning on or after December 15, 2011, which for the Company is the first quarter in 2012. The adoption of this amendment will result in a change to the Company's current presentation of comprehensive income.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the six months ended June 30, 2011, there were no material changes in our market risk exposure. For a discussion of our market risk associated with foreign currency risk, interest rate risk and credit risk, see Item 7A *Quantitative and Qualitative Disclosures about Market Risk* in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4. Controls and Procedures***Evaluation of Disclosure Controls and Procedures***

Disclosure controls and procedures are the Company's controls and other procedures which are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the Exchange Act Rule 13a-15(b). Based upon that evaluation, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that the

Edgar Filing: Genpact LTD - Form 10-Q

Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

Table of Contents

Changes in Internal Controls Over Financial Reporting

There have been no changes in our internal controls over financial reporting during the quarter ended June 30, 2011, other than those controls that were added by virtue of our acquisition of Headstrong, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

In making its assessment of the changes in internal control over financial reporting during the quarter ended June 30, 2011, our management excluded an evaluation of the disclosure controls and procedures of Headstrong, a company we acquired on May 3, 2011. See Note 3 to the Consolidated Financial Statements for a discussion of the acquisition.

PART II

Item 1. Legal Proceedings

There are no legal proceedings pending against us that we believe are likely to have a material adverse effect on our business, results of operations and financial condition.

Item 1A. Risk Factors

We have disclosed under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010 the risk factors that materially affect our business, financial condition or results of operations. You should carefully consider the "Risk Factors" set forth in our Annual Report on Form 10-K for the year ended December 31, 2010 and the other information set forth elsewhere in this Quarterly Report on Form 10-Q. You should be aware that these risk factors and other information may not describe every risk facing our Company. Additional risks and uncertainties not currently known to us also may materially adversely affect our business, financial condition and/or results of operations.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

On August 1, 2007, we commenced an initial public offering of our common shares, pursuant to which the Company and our selling shareholders each sold 17,647,059 common shares at a price of \$14 per share. On August 14, 2007, the underwriters exercised their option to purchase 5,294,118 additional common shares from the Company at the initial offering price of \$14 per share to cover over-allotments. The sales were made pursuant to a registration statement on Form S-1 (File No. 333-142875), which was declared effective by the SEC on August 1, 2007. The managing underwriters in the offering were Morgan Stanley & Co. Incorporated, Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. The underwriting discounts and commissions and offering expenses payable by us aggregated \$9.0 million, resulting in net proceeds to us of \$294.5 million. We did not receive any proceeds from common shares sold by the selling shareholders.

We used \$98.1 million of the net proceeds from our initial public offering to repay revolving loan indebtedness outstanding under our credit facility. In addition, we used \$130.0 million of the net proceeds from our initial public offering partially to repay long term indebtedness outstanding under our credit facility in accordance with the regular payment schedule for such indebtedness.

We paid \$16.3 million in January 2010 for the arrangement with Walgreens, acquired Symphony for \$29.3 million in February 2010 and acquired Akritiv for \$1.6 million in March 2011. The remaining proceeds of \$19.2 million were used as part of the consideration to acquire Headstrong. There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b) on August 2, 2007.

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

None.

Table of Contents**Item 6. Exhibits****Exhibit****Number****Description**

3.1	Memorandum of Association of the Registrant (incorporated by reference to Exhibit 3.1 to Amendment No. 2 of the Registrant's Registration Statement on Form S-1 (File No. 333-142875) filed with the SEC on July 16, 2007).
3.3	Bye-laws of the Registrant (incorporated by reference to Exhibit 3.3 to Amendment No. 4 of the Registrant's Registration Statement on Form S-1 (File No. 333-142875) filed with the SEC on August 1, 2007).
10.1	Amendment Restatement and Syndication Agreement, dated June 16, 2011, by and among the Registrant, Genpact International, Inc., Headstrong Corporation, Bank of America, N.A., as administrative agent and collateral agent, and the other existing lenders and new lenders party thereto.*
10.2	Master Services Agreement dated October 10, 2009 between Genpact India and Carnation Auto India Pvt. Ltd.*
23.1	Consent of Ernst & Young.*
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document (1)
101.SCH	XBRL Taxonomy Extension Schema Document (1)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (1)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (1)

* Filed with this Quarterly Report on Form 10-Q.

- (1) Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2010 and June 30, 2011, (ii) Consolidated Statements of Income for the three months and six months ended June 30, 2010 and June 30, 2011, (iii) Consolidated Statement of Equity and Comprehensive Income (Loss) for the six months ended June 30, 2010 and June 30, 2011, (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and June 30, 2011, and (v) Notes to Consolidated Financial Statements. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of

Table of Contents

1934, and otherwise is not subject to liability under these sections.

50

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 9, 2011

GENPACT LIMITED

By: /S/ NV Tyagarajan
NV Tyagarajan
Chief Executive Officer

By: /S/ Mohit Bhatia
Mohit Bhatia
Chief Financial Officer

Table of Contents**Exhibit**

Number	Description
3.1	Memorandum of Association of the Registrant (incorporated by reference to Exhibit 3.1 to Amendment No. 2 of the Registrant's Registration Statement on Form S-1 (File No. 333-142875) filed with the SEC on July 16, 2007).
3.3	Bye-laws of the Registrant (incorporated by reference to Exhibit 3.3 to Amendment No. 4 of the Registrant's Registration Statement on Form S-1 (File No. 333-142875) filed with the SEC on August 1, 2007).
10.1	Amendment Restatement and Syndication Agreement, dated June 16, 2011, by and among the Registrant, Genpact International, Inc., Headstrong Corporation, Bank of America, N.A., as administrative agent and collateral agent, and the other existing lenders and new lenders party thereto.*
10.2	Master Services Agreement dated October 10, 2009 between Genpact India and Carnation Auto India Pvt. Ltd.*
23.1	Consent of Ernst & Young.*
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document (1)
101.SCH	XBRL Taxonomy Extension Schema Document (1)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (1)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (1)

* Filed with this Quarterly Report on Form 10-Q.

- (1) Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2010 and June 30, 2011, (ii) Consolidated Statements of Income for the three months and six months ended June 30, 2010 and June 30, 2011, (iii) Consolidated Statement of Equity and Comprehensive Income (Loss) for the six months ended June 30, 2010 and June 30, 2011, (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and June 30, 2011, and (v) Notes to Consolidated Financial Statements. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.