

Genpact LTD  
Form 10-Q  
November 09, 2010  
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 September 30, 2010

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)

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**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 November 4, 2010 was 220,637,516.

**Table of Contents**

**TABLE OF CONTENTS**

| <b>Item No.</b> |  | <b>Page No.</b> |
|-----------------|--|-----------------|
|                 | <b>PART I Financial Statements</b>   |                 |
| 1.              | Unaudited Consolidated Financial Statements  |                 |
|                 | <u>Consolidated Balance Sheets as of December 31, 2009 and September 30, 2010</u>  | 1               |
|                 | <u>Consolidated Statements of Income for the three months and nine months ended September 30, 2009 and 2010</u>                | 3               |
|                 | <u>Consolidated Statements of Equity and Comprehensive Income (Loss) for the nine months ended September 30, 2009 and 2010</u> | 4               |
|                 | <u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2009 and 2010</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>                                   | 26              |
| 3.              | <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 38              |
| 4.              | <u>Controls and Procedures</u>   | 38              |
|                 | <b>PART II Other Information</b>   |                 |
| 1.              | <u>Legal Proceedings</u>   | 40              |
| 1A.             | <u>Risk Factors</u>  | 40              |
| 2.              | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 40              |
| 3.              | <u>Defaults upon Senior Securities</u>   | 40              |
| 5.              | <u>Other Information</u>   | 40              |
| 6.              | <u>Exhibits</u>  | 41              |
|                 | <b><u>SIGNATURES</u></b>   | 42              |

**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,<br>2009 | As of September 30,<br>2010 |
|---|-------|----------------------------|-----------------------------|
| <b>Assets</b>                               |       |                            |                             |
| <i>Current assets</i>                       |       |                            |                             |
| Cash and cash equivalents                   | 4     | \$ 288,734                 | \$ 360,869                  |
| Short term investments                      | 5     | 132,601                    | 42,988                      |
| Accounts receivable, net                    | 6     | 136,280                    | 164,070                     |
| Accounts receivable from related party, net | 6     | 116,228                    | 129,248                     |
| Short term deposits with related party      |       | 9,634                      |                             |
| Deferred tax assets                         | 17    | 45,929                     | 34,659                      |
| Due from related party                      |       | 9                          | 6                           |
| Prepaid expenses and other current assets   |       | 116,551                    | 153,018                     |
| <b>Total current assets</b>                 |       | <b>\$ 845,966</b>          | <b>\$ 884,858</b>           |
| Property, plant and equipment, net          | 9     | 189,112                    | 200,139                     |
| Deferred tax assets                         | 17    | 36,527                     | 32,625                      |
| Investment in equity affiliates             | 18    | 588                        | 2,202                       |
| Customer-related intangible assets, net     | 10    | 36,041                     | 36,702                      |
| Other intangible assets, net                | 10    | 187                        | 100                         |
| Goodwill                                    | 10    | 548,723                    | 559,388                     |
| Other assets                                |       | 90,421                     | 111,273                     |
| <b>Total assets</b>                         |       | <b>\$ 1,747,565</b>        | <b>\$ 1,827,287</b>         |

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,<br>2009 | As of September 30,<br>2010 |
|--|-------|----------------------------|-----------------------------|
| <b>Liabilities and equity</b>  |       |                            |                             |
| <i>Current liabilities</i>   |       |                            |                             |
| Short-term borrowings  |       | \$ 177                     | \$                          |
| Current portion of long-term debt  |       | 44,715                     | 37,400                      |
| Current portion of capital lease obligations   |       | 527                        | 805                         |
| Current portion of capital lease obligations payable to related party  |       | 1,429                      | 1,208                       |
| Accounts payable   |       | 16,276                     | 14,788                      |
| Income taxes payable   | 17    | 1,579                      | 25,558                      |
| Deferred tax liabilities   | 17    | 264                        | 262                         |
| Due to related party   |       | 7,843                      | 7,081                       |
| Accrued expenses and other current liabilities   |       | 322,773                    | 263,650                     |
| <b>Total current liabilities</b>   |       | <b>\$ 395,583</b>          | <b>\$ 350,752</b>           |
| Long-term debt, less current portion   |       | 24,950                     |                             |
| Capital lease obligations, less current portion  |       | 1,570                      | 1,251                       |
| Capital lease obligations payable to related party, less current portion   |       | 1,809                      | 1,495                       |
| Deferred tax liabilities   | 17    | 4,398                      | 1,232                       |
| Due to related party   |       | 10,474                     | 10,985                      |
| Other liabilities  |       | 109,034                    | 81,293                      |
| <b>Total liabilities</b>   |       | <b>\$ 547,818</b>          | <b>\$ 447,008</b>           |
| <b>Shareholders equity</b>   |       |                            |                             |
| Preferred shares, \$0.01 par value, 250,000,000 authorized, none issued  |       |                            |                             |
| Common shares, \$0.01 par value, 500,000,000 authorized, 217,433,091 and 220,298,649 issued and outstanding as of December 31, 2009 and September 30, 2010, respectively |       |                            |                             |
|  |       | 2,174                      | 2,202                       |
| Additional paid-in capital   |       | 1,063,304                  | 1,096,711                   |
| Retained earnings  |       | 278,911                    | 375,063                     |
| Accumulated other comprehensive income (loss)  |       | (146,993)                  | (96,288)                    |
| <b>Genpact Limited shareholders equity</b>   |       | <b>\$ 1,197,396</b>        | <b>\$ 1,377,688</b>         |
| Noncontrolling interest  |       | 2,351                      | 2,591                       |
| <b>Total equity</b>  |       | <b>\$ 1,199,747</b>        | <b>\$ 1,380,279</b>         |
| Commitments and contingencies  |       |                            |                             |
| <b>Total liabilities and equity</b>  |       | <b>\$ 1,747,565</b>        | <b>\$ 1,827,287</b>         |

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<br>September 30, |                   | Nine months ended<br>September 30, |                   |
|--|--------|-------------------------------------|-------------------|------------------------------------|-------------------|
|  |        | 2009                                | 2010              | 2009                               | 2010              |
| <b>Net revenues</b>  |        |                                     |                   |                                    |                   |
| Net revenues from services - related party   | 18     | \$ 111,459                          | \$ 122,759        | \$ 333,909                         | \$ 354,011        |
| Net revenues from services - others  |        | 172,981                             | 198,812           | 489,216                            | 563,406           |
| <b>Total net revenues</b>  |        | 284,440                             | 321,571           | 823,125                            | 917,417           |
| <b>Cost of revenue</b>   |        |                                     |                   |                                    |                   |
| Services   | 14, 18 | 166,995                             | 204,833           | 496,516                            | 572,619           |
| <b>Total cost of revenue</b>   |        | 166,995                             | 204,833           | 496,516                            | 572,619           |
| <b>Gross profit</b>  |        | <b>\$ 117,445</b>                   | <b>\$ 116,738</b> | <b>\$ 326,609</b>                  | <b>\$ 344,798</b> |
| <i>Operating expenses:</i>   |        |                                     |                   |                                    |                   |
| Selling, general and administrative expenses   | 15, 18 | 67,242                              | 71,272            | 194,965                            | 219,440           |
| Amortization of acquired intangible assets   | 10     | 6,382                               | 3,875             | 19,747                             | 12,159            |
| Other operating (income) expense, net  | 18     | (1,092)                             | (839)             | (3,970)                            | (4,780)           |
| <b>Income from operations</b>  |        | <b>\$ 44,913</b>                    | <b>\$ 42,430</b>  | <b>\$ 115,867</b>                  | <b>\$ 117,979</b> |
| Foreign exchange (gains) losses, net   |        | 2,576                               | (5,513)           | 2,005                              | 73                |
| Other income (expense), net  | 16, 18 | 305                                 | 1,210             | 3,448                              | 3,324             |
| <b>Income before share of equity in (earnings) loss<br/>of affiliates and income tax expense</b> |        | <b>\$ 42,642</b>                    | <b>\$ 49,153</b>  | <b>\$ 117,310</b>                  | <b>\$ 121,230</b> |
| Equity in loss of affiliates   |        | 161                                 | 104               | 596                                | 709               |
| <b>Income before income tax expense</b>  |        | <b>\$ 42,481</b>                    | <b>\$ 49,049</b>  | <b>\$ 116,714</b>                  | <b>\$ 120,521</b> |
| Income tax expense   | 17     | 7,895                               | 7,490             | 18,430                             | 19,572            |
| <b>Net Income</b>  |        | <b>\$ 34,586</b>                    | <b>\$ 41,559</b>  | <b>\$ 98,284</b>                   | <b>\$ 100,949</b> |
| Net income attributable to noncontrolling interest   |        | 1,524                               | 1,428             | 5,572                              | 4,797             |
| <b>Net income attributable to Genpact Limited<br/>shareholders</b>                               |        | <b>\$ 33,062</b>                    | <b>\$ 40,131</b>  | <b>\$ 92,712</b>                   | <b>\$ 96,152</b>  |
| Net income available to Genpact Limited common<br>shareholders                                   | 13     | \$ 33,062                           | \$ 40,131         | \$ 92,712                          | \$ 96,152         |
| Earnings per common share attributable to Genpact<br>Limited common shareholders                 | 13     |                                     |                   |                                    |                   |
| Basic  |        | \$ 0.15                             | \$ 0.18           | \$ 0.43                            | \$ 0.44           |

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|         |    |      |    |      |    |      |    |      |
|---------|----|------|----|------|----|------|----|------|
| Diluted | \$ | 0.15 | \$ | 0.18 | \$ | 0.42 | \$ | 0.43 |
|---------|----|------|----|------|----|------|----|------|

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

|         |             |             |             |             |
|---------|-------------|-------------|-------------|-------------|
| Basic   | 215,794,607 | 219,630,410 | 215,136,984 | 218,847,260 |
| Diluted | 221,799,597 | 224,831,250 | 219,228,874 | 224,583,494 |

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)**

|   | Common shares      |                 | Genpact Limited Shareholders     |                      | Accumulated<br>Other<br>Comprehensive<br>Income (loss) | Non<br>controlling<br>interest | Total<br>Equity     |
|---|--------------------|-----------------|----------------------------------|----------------------|--|--------------------------------|---------------------|
|   | No. of Shares      | Amount          | Additional<br>Paid-in<br>Capital | Retained<br>Earnings |  |                                |                     |
| <b>Balance as of January 1, 2009</b>  | <b>214,560,620</b> | <b>\$ 2,146</b> | <b>\$ 1,030,304</b>              | <b>\$ 151,610</b>    | <b>\$ (342,267)</b>                                    | <b>\$ 2,573</b>                | <b>\$ 844,366</b>   |
| Issuance of common shares on exercise of options (Note 12)                  | 1,523,358          | 15              | 7,432                            |                      |  |                                | 7,447               |
| Issuance of common shares under the employee share purchase plan (Note 12)  | 31,327             |                 | 289                              |                      |  |                                | 289                 |
| Distribution to noncontrolling interest                                     |                    |                 |                                  |                      |  | (5,586)                        | (5,586)             |
| Share-based compensation expense (Note 12)                                  |                    |                 | 15,256                           |                      |  |                                | 15,256              |
| Comprehensive income:   |                    |                 |                                  |                      |  |                                |                     |
| Net income  |                    |                 |                                  | 92,712               |  | 5,572                          | 98,284              |
| Other comprehensive income:   |                    |                 |                                  |                      |  |                                |                     |
| Net unrealized income (loss) on cash flow hedging derivatives, net of taxes |                    |                 |                                  |                      | 99,846   |                                | 99,846              |
| Net unrealized gain (loss) on investment in U.S. treasury bills             |                    |                 |                                  |                      | 35   |                                | 35                  |
| Currency translation adjustments  |                    |                 |                                  |                      | (1,179)  | (3)                            | (1,182)             |
| Comprehensive income (loss)   |                    |                 |                                  |                      |  |                                | \$ 196,983          |
| <b>Balance as of September 30, 2009</b>                                     | <b>216,115,305</b> | <b>\$ 2,161</b> | <b>\$ 1,053,281</b>              | <b>\$ 244,322</b>    | <b>\$ (243,565)</b>                                    | <b>\$ 2,556</b>                | <b>\$ 1,058,755</b> |

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<br>Other<br>Comprehensive<br>Income (loss) | Non<br>controlling<br>interest | Total Equity        |
|---|------------------------------|-----------------|----------------------------------|----------------------|--|--------------------------------|---------------------|
|   | Common shares                |                 | Additional<br>Paid-in<br>Capital | Retained<br>Earnings |  |                                |                     |
|   | No. of shares                | Amount          |                                  |                      |  |                                |                     |
| <b>Balance as of January 1, 2010</b>  | <b>217,433,091</b>           | <b>\$ 2,174</b> | <b>\$ 1,063,304</b>              | <b>\$ 278,911</b>    | <b>\$ (146,993)</b>                                    | <b>\$ 2,351</b>                | <b>\$ 1,199,747</b> |
| Issuance of common shares on exercise of options (Note 12)                  | 2,795,669                    | 28              | 18,000                           |                      |  |                                | 18,028              |
| Issuance of common shares under the employee share purchase plan (Note 12)  | 32,389                       |                 | 444                              |                      |  |                                | 444                 |
| Issuance of common shares on vesting of restricted share units (Note 12)    | 37,500                       |                 |                                  |                      |  |                                |                     |
| Noncontrolling interest on business acquisition                             |                              |                 |                                  |                      |  | 502                            | 502                 |
| Distribution to noncontrolling interest                                     |                              |                 |                                  |                      |  | (4,700)                        | (4,700)             |
| Share-based compensation expense (Note 12)                                  |                              |                 | 14,963                           |                      |  |                                | 14,963              |
| Comprehensive income:   |                              |                 |                                  |                      |  |                                |                     |
| Net income  |                              |                 |                                  | 96,152               |  | 4,797                          | 100,949             |
| Other comprehensive income:   |                              |                 |                                  |                      |  |                                |                     |
| Net unrealized income (loss) on cash flow hedging derivatives, net of taxes |                              |                 |                                  |                      | 43,765   |                                | 43,765              |
| Net unrealized gain (loss) on investment in U.S. treasury bills             |                              |                 |                                  |                      | 202  |                                | 202                 |
| Currency translation adjustments  |                              |                 |                                  |                      | 6,738  | (359)                          | 6,379               |
| Comprehensive income (loss)   |                              |                 |                                  |                      |  |                                | \$ 151,295          |
| <b>Balance as of September 30, 2010</b>                                     | <b>220,298,649</b>           | <b>\$ 2,202</b> | <b>\$ 1,096,711</b>              | <b>\$ 375,063</b>    | <b>\$ (96,288)</b>                                     | <b>\$ 2,591</b>                | <b>\$ 1,380,279</b> |

See accompanying notes to the Consolidated Financial Statements.

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

|   | <b>Nine months ended<br/>September 30,</b> |                  |
|---|--|------------------|
|   | <b>2009</b>                                | <b>2010</b>      |
| <b>Operating activities</b>   |  |                  |
| Net income attributable to Genpact Limited shareholders   | \$ 92,712                                  | \$ 96,152        |
| <i>Adjustments to reconcile net income to net cash provided by (used for) operating activities:</i> |  |                  |
| Depreciation and amortization   | 38,893                                     | 43,128           |
| Amortization of debt issue costs  | 434  | 310              |
| Amortization of acquired intangible assets  | 20,182                                     | 12,400           |
| Provision for doubtful receivables  | 2,112                                      | (1,373)          |
| Gain on business acquisition  |  | (247)            |
| Unrealized (gain) loss on revaluation of foreign currency asset/liability                           | 5,147                                      | (393)            |
| Equity in loss of affiliates  | 596  | 709              |
| Noncontrolling interest   | 5,572                                      | 4,797            |
| Share-based compensation expense  | 15,256                                     | 14,963           |
| Deferred income taxes   | (18,324)                                   | (5,719)          |
| Others, net   | (178)                                      | 152              |
| <i>Change in operating assets and liabilities:</i>  |  |                  |
| Increase in accounts receivable   | (18,072)                                   | (40,657)         |
| Increase in other assets  | (46,497)                                   | (49,536)         |
| (Decrease) increase in accounts payable   | 4,243                                      | (300)            |
| Decrease in accrued expenses and other current liabilities  | (15,791)                                   | (23,288)         |
| Increase in income taxes payable  | 33,546                                     | 24,043           |
| Increase in other liabilities   | 3,671                                      | 2,823            |
| <b>Net cash provided by operating activities</b>  | <b>\$ 123,502</b>                          | <b>\$ 77,964</b> |
| <b>Investing activities</b>   |  |                  |
| Purchase of property, plant and equipment   | (43,949)                                   | (47,690)         |
| Proceeds from sale of property, plant and equipment   | 2,026                                      | 916              |
| Investment in affiliates  | (296)                                      | (2,324)          |
| Purchase of short term investments  | (197,419)                                  | (85,971)         |
| Proceeds from sale of short term investments  | 194,822                                    | 175,584          |
| Short term deposits placed with related party   | (101,008)                                  | (6,485)          |
| Redemption of short term deposits with related party  | 144,880                                    | 16,213           |
| Payment for business acquisitions, net of cash acquired   | (20,196)                                   | (42,575)         |
| <b>Net cash provided by (used for) investing activities</b>   | <b>\$ (21,140)</b>                         | <b>\$ 7,668</b>  |
| <b>Financing activities</b>   |  |                  |
| Repayment of capital lease obligations  | (1,946)                                    | (3,486)          |
| Repayment of long-term debt   | (20,000)                                   | (32,500)         |
| Repayment of short-term borrowings  | (25,000)                                   | (165)            |
| Proceeds from issuance of common shares under share based compensation plans                        | 7,736                                      | 18,472           |

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|   |                    |                    |
|---|--------------------|--------------------|
| Distribution to noncontrolling interest                               | (5,586)            | (4,700)            |
| <b>Net cash used for financing activities</b>                         | <b>\$ (44,796)</b> | <b>\$ (22,379)</b> |
| Effect of exchange rate changes                                       | (1,170)            | 8,882              |
| Net increase in cash and cash equivalents                             | 57,566             | 63,253             |
| Cash and cash equivalents at the beginning of the period              | 184,050            | 288,734            |
| <b>Cash and cash equivalents at the end of the period</b>             | <b>\$ 240,446</b>  | <b>\$ 360,869</b>  |
| <b>Supplementary information</b>                                      |                    |                    |
| Cash paid during the period for interest                              | \$ 3,652           | \$ 1,293           |
| Cash paid during the period for income taxes                          | \$ 43,557          | \$ 28,872          |
| Property, plant and equipment acquired under capital lease obligation | \$ 1,250           | \$ 1,066           |

See accompanying notes to the Consolidated Financial Statements.

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**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 and IT infrastructure services. The Company delivers services from a global network of approximately 40 locations in thirteen 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 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, which have been recognized under Other income (expense), net in the Consolidated Statement of Income for the nine-months ended September 30, 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, 2009.

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 financial statements have been prepared on a consolidated basis and reflect the unaudited interim financial statements of Genpact Limited and all of its subsidiaries that are more than 50% owned and controlled. 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

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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 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 share-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) 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 an 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 46% and 44% of receivables as of December 31, 2009 and September 30, 2010, respectively. GE accounted for 41% and 39% of revenues for the nine months ended September 30, 2009 and 2010, respectively, and for 39% and 38% of revenues for the three months ended September 30, 2009 and 2010, respectively.

***(d) 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 September 30, 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.

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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  | 3-10 years |
| Marketing-related intangible assets | 1-5 years  |
| Contract-related intangible assets  | 1 year     |
| Other intangible assets             | 3 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.



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**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)**

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.

***(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 statement amounts as they are disclosure-only in nature:

In February 2010, the FASB issued ASU 2010-09 which amends ASC 855-10, *Subsequent Events* such that a SEC filer, as defined in the ASU, is no longer required to disclose the date through which subsequent events have been evaluated in the originally issued and revised financial statements. The ASU also provides that SEC filers must evaluate the subsequent events through the date the financial statements are issued. The provisions of ASU 2010-09 are effective immediately for SEC filers. Effective the date of issuance of the ASU in February 2010, the Company adopted ASU 2010-09.

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 are effective for 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 will be effective for interim and annual reporting periods beginning after December 15, 2010. Effective January 1, 2010, the Company adopted ASU 2010-06.

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 January 2010, the FASB issued guidance which modified the scope provisions that were originally contained in ASC 810-10 on noncontrolling interests and also expands required disclosures about the fair value measurements in accounting for a change in

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ownership of a subsidiary and previously held equity interests in business combinations achieved in stages. The guidance is effective for the first interim or annual reporting period ending on or after December 15, 2009 and is to be applied on a retrospective basis. Effective January 1, 2009, the Company adopted this guidance.

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 has elected an early adoption of ASU 2009-13, effective January 1, 2010.

**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)*****(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.

**3. Business acquisitions*****(a) Symphony Marketing Solutions, Inc.***

On February 3, 2010, the Company acquired 100% of the outstanding equity interest in Symphony Marketing Solutions, Inc., a Delaware corporation ( Symphony ), for cash consideration of \$29,303. Acquisition-related costs incurred by the Company amounted to \$521, which have been expensed under Selling, general and administrative expenses in the Consolidated Statements of Income. Through this acquisition, the Company intends to enhance its expertise in analytics and data management services.

The acquisition of Symphony was accounted for as a business combination, in accordance with the acquisition method. The operations of Symphony 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 February 3, 2010.

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 (excluding tangible fixed assets) | \$ (3,259) |
| Tangible fixed assets  | 2,612      |
| Customer related intangible assets                           | 12,460     |
| Goodwill   | 14,168     |
| Deferred tax assets, net                                     | 3,322      |
|  | \$ 29,303  |

The above acquired customer related intangible assets have estimated useful lives of 8 to 10 years.

***(b) Acquisition of Delivery Center in Danville***

In January 2010, the Company finalized an arrangement with Walgreens, the largest drug store chain in the U.S., to acquire a delivery center in Danville, Illinois and entered into a ten year master professional services 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. By virtue of the combination of the acquisition of the delivery center and the entry into the MPSA, the Company has acquired an integrated set of activities and assets capable of being managed and conducted for the purpose of providing returns to the Company for a cash consideration of \$16,347. Through this acquisition, the Company strengthens its offering in the healthcare industry.

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The acquisition of the delivery center in Danville was accounted for as a business combination, in accordance with the acquisition method. The operations of Danville 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 May 1, 2010.

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

|                          |           |
|--------------------------|-----------|
| Tangible fixed assets    | \$ 12,825 |
| Goodwill                 | 2,083     |
| Deferred tax assets, net | 1,439     |
|                          | \$ 16,347 |

**Table of Contents****GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****4. Cash and Cash Equivalents**

Cash and cash equivalents as of December 31, 2009 and September 30, 2010 comprise:

|                              | As of December 31, 2009 | As of September 30, 2010 |
|------------------------------|-------------------------|--------------------------|
| Deposits with banks          | \$ 192,222              | \$ 179,376               |
| U.S. Treasury bills          | 38,549                  | 83,488                   |
| Other cash and bank balances | 57,963                  | 98,005                   |
| <b>Total</b>                 | <b>\$ 288,734</b>       | <b>\$ 360,869</b>        |

**5. Short Term Investments**

The components of the Company's short term investments as of December 31, 2009 and September 30, 2010 are as follows:

|                         | Carrying Value    | As of December 31, 2009 |                   | Estimated Fair Value |
|-------------------------|-------------------|-------------------------|-------------------|----------------------|
|                         |                   | Unrealized gains        | Unrealized losses |                      |
| Short term investments: |                   |                         |                   |                      |
| U.S. Treasury bills     | \$ 132,798        | \$                      | \$ 197            | \$ 132,601           |
| <b>Total</b>            | <b>\$ 132,798</b> | <b>\$</b>               | <b>\$ 197</b>     | <b>\$ 132,601</b>    |

|                         | Carrying Value   | As of September 30, 2010 |                   | Estimated Fair Value |
|-------------------------|------------------|--------------------------|-------------------|----------------------|
|                         |                  | Unrealized gains         | Unrealized losses |                      |
| Short term investments: |                  |                          |                   |                      |
| U.S. Treasury bills     | \$ 42,983        | \$ 5                     | \$                | \$ 42,988            |
| <b>Total</b>            | <b>\$ 42,983</b> | <b>\$ 5</b>              | <b>\$</b>         | <b>\$ 42,988</b>     |

**6. Accounts receivable, net of provision for doubtful receivables**

Accounts receivable were \$257,737 and \$296,106, and provision for doubtful receivables were \$5,229 and \$2,788, resulting in net accounts receivable balances of \$252,508 and \$293,318, as of December 31, 2009 and September 30, 2010, respectively. In addition, accounts receivable due after one year of \$1,174 and \$8,947 as of December 31, 2009 and September 30, 2010, respectively are included under other assets in the Consolidated Balance Sheets.

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Accounts receivable from related parties were \$117,697 and \$130,074, and provision for doubtful receivables were \$1,469 and \$826, resulting in net accounts receivable balances of \$116,228 and \$129,248, as of December 31, 2009 and September 30, 2010, respectively.

**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**

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 notes, and loans held for sale were determined using the following inputs as of December 31, 2009 and September 30, 2010:

|  | Total             | As of December 31, 2009<br>Fair Value Measurements at Reporting Date Using  |   |   |
|--|-------------------|---|---|---|
|  |                   | Quoted Prices in Active<br>Markets for Identical<br>Assets<br>(Level 1)     | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Other<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets</b>                          |                   |   |   |   |
| Derivative Instruments (Note a)        | \$ 30,347         | \$  | \$ 30,347   | \$  |
| Loans held for sale (Note a)           | 552               |   |   | 552   |
| U.S. Treasury bills and notes (Note c) | 171,150           | 171,150   |   |   |
| <b>Total</b>                           | <b>\$ 202,049</b> | <b>\$ 171,150</b>   | <b>\$ 30,347</b>  | <b>\$ 552</b>   |
| <b>Liabilities</b>                     |                   |   |   |   |
| Derivative Instruments (Note b)        | \$ 159,965        | \$  | \$ 159,965  | \$  |
| <b>Total</b>                           | <b>\$ 159,965</b> | <b>\$</b>   | <b>\$ 159,965</b>   | <b>\$</b>   |
|  | Total             | As of September 30, 2010<br>Fair Value Measurements at Reporting Date Using |   |   |
|  |                   | Quoted Prices in Active<br>Markets for Identical<br>Assets<br>(Level 1)     | Significant Other<br>Observable<br>Inputs<br>(Level 2)    | Significant Other<br>Unobservable<br>Inputs<br>(Level 3)    |
| <b>Assets</b>                          |                   |   |   |   |
| Derivative Instruments (Note a)        | \$ 34,281         | \$  | \$ 34,281   | \$  |
| Loans held for sale (Note a)           | 603               |   |   | 603   |
| U.S. Treasury bills and notes (Note c) | 126,476           | 126,476   |   |   |
| <b>Total</b>                           | <b>\$ 161,360</b> | <b>\$ 126,476</b>   | <b>\$ 34,281</b>  | <b>\$ 603</b>   |
| <b>Liabilities</b>                     |                   |   |   |   |
| Derivative Instruments (Note b)        | \$ 93,501         | \$  | \$ 93,501   | \$  |
| <b>Total</b>                           | <b>\$ 93,501</b>  | <b>\$</b>   | <b>\$ 93,501</b>  | <b>\$</b>   |

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- (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 investments, 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<br>ended<br>September 30, |        | Nine months<br>ended<br>September 30, |        |
|---|--|--------|---------------------------------------|--------|
|   | 2009                                   | 2010   | 2009                                  | 2010   |
| Opening balance, net                      | \$ 759                                 | \$ 605 | \$ 759                                | \$ 552 |
| Impact of fair value included in earnings |  | 7      |                                       | 81     |
| Settlements                               | (759)                                  | (9)    | (759)                                 | (30)   |
| Closing balance, net                      | \$                                     | \$ 603 | \$                                    | \$ 603 |

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 and notes which are classified as available-for-sale short term investments 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 non-material. The forward foreign exchange contracts mature between zero and forty-two 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<br>(Note a) |                                | Balance sheet exposure asset<br>(liability) (Note b) |                                |
|--|--------------------------------|--|--------------------------------|
| As of<br>December 31,<br>2009          | As of<br>September 30,<br>2010 | As of<br>December 31,<br>2009                        | As of<br>September 30,<br>2010 |

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| Foreign exchange forward contracts denominated in:    |              |              |              |             |
|---|--------------|--------------|--------------|-------------|
| United States Dollars (sell) Indian Rupees (buy)      | \$ 2,215,000 | \$ 2,012,813 | \$ (115,883) | \$ (50,178) |
| United States Dollars (sell) Mexican Peso (buy)       | 15,400       | 14,000       | 599          | 769         |
| United States Dollars (sell) Philippines Peso (buy)   | 20,550       | 60,350       | 577          | 1,420       |
| Euro (sell) United States Dollars (buy)               | 44,329       | 54,119       | (42)         | 1,048       |
| Euro (sell) Hungarian Forints (buy)                   | 9,095        | 15,223       | 108          | 385         |
| Euro (sell) Romanian Leu (buy)                        | 63,637       | 58,992       | (7,781)      | (866)       |
| Japanese Yen (sell) Chinese Renminbi (buy)            | 62,483       | 76,307       | (4,985)      | (8,335)     |
| Pound Sterling (sell) United States Dollars (buy)     | 51,149       | 46,011       | 406          | 826         |
| Australian Dollars (sell) United States Dollars (buy) | 26,461       | 31,987       | (2,617)      | (4,289)     |
|   |              |              | \$ (129,618) | \$ (59,220) |

- (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)**

The 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 of forecasted revenues and purchase of services. In addition to this the Company also has derivative instruments that are not designated as hedges under the FASB guidance, to hedge the fluctuations in foreign exchange rates for recognized balance sheet items such as receivables and inter-company borrowings.

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

|  | Cash flow                  |                             | Non-designated             |                             |
|--|----------------------------|-----------------------------|----------------------------|-----------------------------|
|  | As of December 31,<br>2009 | As of September 30,<br>2010 | As of December 31,<br>2009 | As of September 30,<br>2010 |
| <b>Assets</b>                                  |                            |                             |                            |                             |
| Prepaid expenses and other current assets      | \$ 4,133                   | \$ 7,022                    | \$ 3,502                   | \$ 6,613                    |
| Other assets                                   | \$ 22,712                  | \$ 20,646                   | \$                         | \$                          |
| <b>Liabilities</b>                             |                            |                             |                            |                             |
| Accrued expenses and other current liabilities | \$ 97,696                  | \$ 63,092                   | \$ 2,175                   | \$ 989                      |
| Other liabilities                              | \$ 60,094                  | \$ 29,420                   | \$                         | \$                          |

**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 affects earnings. Gains (losses) on the derivatives representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in earnings.

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 (\$87,001), and (\$43,236), net of taxes, as of December 31, 2009 and September 30, 2010, 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 on Derivatives (Ineffective Portion and Amount excluded from Effectiveness Testing) | Amount of Gain (Loss) recognized in income on Derivative (Ineffective Portion and Amount excluded from Effectiveness Testing) |           |                                      |           |
|--|--|------------------|--|--|--------------------|-------------------------------------|--------------------|--|---|-----------|--------------------------------------|-----------|
|  | Nine months ended September 30, 2009                                       | 2010             |  | Three months ended September 30, 2009  | 2010               | Nine month ended September 30, 2009 | 2010               |  | Three months ended September 30, 2009   | 2010      | Nine months ended September 30, 2009 | 2010      |
| Forward foreign exchange contracts             | \$ 86,044  | \$ 10,466        | Revenue  | \$ (2,729)   | \$ (1,142)         | \$ (3,274)                          | \$ (3,183)         | Foreign exchange (gains) losses, net   | \$  | \$        | \$                                   | \$        |
|  |  |                  | Cost of revenue  | (11,589)   | (15,285)           | (36,759)                            | (42,049)           |  |   |           |                                      |           |
|  |  |                  | Selling, general and administrative expenses   | (3,132)  | (3,286)            | (9,432)                             | (10,403)           |  |   |           |                                      |           |
|  | <b>\$ 86,044</b>   | <b>\$ 10,466</b> |  | <b>\$ (17,450)</b>   | <b>\$ (19,713)</b> | <b>\$ (49,465)</b>                  | <b>\$ (55,635)</b> |  | <b>\$</b>   | <b>\$</b> | <b>\$</b>                            | <b>\$</b> |



**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*

|   | Location of (Gain) Loss<br>recognized in Income on<br>Derivatives | Amount of (Gain) Loss recognized in Income<br>on<br>Derivatives |                   |  |                   |
|---|---|---|-------------------|--|-------------------|
|   |   | Three months ended<br>September 30,<br>2009                     |                   | Nine months ended<br>September 30,<br>2010 |                   |
| Derivatives not designated as hedging instruments | Derivatives   |   |                   |  |                   |
| Forward foreign exchange contracts<br>(Note a)    | Foreign exchange (gains) losses, net                              | \$ 462  | \$ (1,924)        | \$ (2,956)                                 | \$ (8,243)        |
| Forward foreign exchange contracts<br>(Note b)    | Foreign exchange (gains) losses, net                              | 6,855   |                   | 13,070                                     | (234)             |
|   |   | <b>\$ 7,317</b>   | <b>\$ (1,924)</b> | <b>\$ 10,114</b>                           | <b>\$ (8,477)</b> |

- (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 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 \$13,070 and (\$234) for the nine months ended September 30, 2009 and 2010 respectively, and the net (gains) losses amounts of \$6,855 and \$0 for the three months ended September 30, 2009 and 2010 respectively, include the recognition of previously unrealized losses for certain derivative contracts previously 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. For the nine months ended September 30, 2009 and 2010, unrealized losses of \$13,964 and \$0, respectively, and for the three months ended September 30, 2009 and 2010, unrealized losses of \$6,636 and \$0, respectively, were recognized in the consolidated statements of income related to these non-designated contracts. In addition, these amounts also include 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.

**9. Property, plant and equipment, net**

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

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|   | As of December 31,<br>2009 | As of September 30,<br>2010 |
|---|----------------------------|-----------------------------|
| Property, plant and equipment, gross            | \$ 381,250                 | \$ 429,629                  |
| Less: Accumulated depreciation and amortization | (192,138)                  | (229,490)                   |
| Property, plant and equipment, net              | \$ 189,112                 | \$ 200,139                  |

Depreciation expense on property, plant and equipment for the nine months ended September 30, 2009 and 2010 was \$33,201 and \$37,014 respectively, and for the three months ended September 30, 2009 and 2010 was \$11,677 and \$12,445 respectively. The amount of computer software amortization for the nine months ended September 30, 2009 and 2010 was \$9,095 and \$10,043, respectively, and for the three months ended September 30, 2009 and 2010 was \$3,054 and \$3,300, 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 \$3,403 and \$3,929 for the nine months ended September 30, 2009 and 2010, respectively, and \$1,130 and \$1,377 for the three months ended September 30, 2009 and 2010, respectively.

**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**

The following table presents the changes in goodwill for the year ended December 31, 2009 and nine months ended September 30, 2010:

|   | As of December 31,<br>2009 | As of September 30,<br>2010 |
|---|----------------------------|-----------------------------|
| Opening balance   | \$ 531,897                 | \$ 548,723                  |
| Goodwill relating to acquisitions consummated during the period |                            | 16,251                      |
| Effect of exchange rate fluctuations                            | 16,826                     | (5,586)                     |
| Closing balance   | \$ 548,723                 | \$ 559,388                  |

The total amount of goodwill deductible for tax purposes is \$13,805 and \$10,636 as of December 31, 2009 and September 30, 2010, 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, 2009     |                             |           | As of September 30, 2010    |                             |           |
|-------------------------------------|-----------------------------|-----------------------------|-----------|-----------------------------|-----------------------------|-----------|
|                                     | Gross<br>carrying<br>amount | Accumulated<br>amortization | Net       | Gross<br>carrying<br>amount | Accumulated<br>amortization | Net       |
| Customer-related intangible assets  | \$ 208,117                  | \$ 172,076                  | \$ 36,041 | \$ 219,950                  | \$ 183,248                  | \$ 36,702 |
| Marketing-related intangible assets | 15,685                      | 15,685                      |           | 15,673                      | 15,673                      |           |
| Contract-related intangible assets  | 471                         | 471                         |           | 474                         | 474                         |           |
| Other intangible assets             | 343                         | 156                         | 187       | 343                         | 243                         | 100       |
|                                     | \$ 224,616                  | \$ 188,388                  | \$ 36,228 | \$ 236,440                  | \$ 199,638                  | \$ 36,802 |

Amortization expenses for intangible assets as disclosed in the consolidated statements of income under amortization of acquired intangible assets for the nine months ended September 30, 2009 and 2010 were \$19,747 and \$12,159, respectively, and for the three months ended September 30, 2009 and 2010 were \$6,382 and \$3,875, 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 nine months ended on September 30, 2009 and 2010 were \$435 and \$241, respectively, and for the three months ended September 30, 2009 and 2010 were \$140 and \$76, respectively, and has been reported as a reduction of revenue. As of September 30, 2010, the unamortized value of the intangible asset was \$308 which will be amortized in future periods and reported as a reduction of revenue.





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

Net Gratuity Plan costs for the three months and nine months ended September 30, 2009, and 2010 include the following components:

|                                | Three months ended September 30, |               | Nine months ended September 30, |                 |
|--------------------------------|----------------------------------|---------------|---------------------------------|-----------------|
|                                | 2009                             | 2010          | 2009                            | 2010            |
| Service costs                  | \$ 473                           | \$ 596        | \$ 1,406                        | \$ 1,808        |
| Interest costs                 | 195                              | 234           | 580                             | 710             |
| Amortization of actuarial loss | 105                              | 87            | 312                             | 264             |
| Expected return on plan assets | (143)                            | (196)         | (421)                           | (593)           |
| <b>Net Gratuity Plan costs</b> | <b>\$ 630</b>                    | <b>\$ 721</b> | <b>\$ 1,877</b>                 | <b>\$ 2,189</b> |

***Defined contribution plans***

During the three months and nine months ended September 30, 2009 and 2010, the Company contributed the following amounts to defined contribution plans in various jurisdictions:

|              | Three months ended September 30, |                 | Nine months ended September 30, |                  |
|--------------|----------------------------------|-----------------|---------------------------------|------------------|
|              | 2009                             | 2010            | 2009                            | 2010             |
| India        | \$ 2,051                         | \$ 2,632        | \$ 5,917                        | \$ 7,522         |
| U.S.         | 193                              | 361             | 800                             | 1,191            |
| U.K.         | 137                              | 193             | 397                             | 627              |
| Hungary      | 16                               | 16              | 45                              | 32               |
| China        | 1,676                            | 2,130           | 4,885                           | 5,810            |
| Mexico       | 9                                | 11              | 48                              | 37               |
| South Africa | 21                               | 81              | 21                              | 252              |
| Morocco      |                                  | 24              |                                 | 85               |
| <b>Total</b> | <b>\$ 4,103</b>                  | <b>\$ 5,448</b> | <b>\$ 12,113</b>                | <b>\$ 15,556</b> |

**12. Share-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.

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

The share-based compensation costs relating to the above plans during the nine months ended September 30, 2009 and 2010, were \$15,256 and \$14,912, respectively, and for the three months ended September 30, 2009 and 2010, were \$5,825 and \$4,661, 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 nine months ended September 30, 2010.

A summary of the options granted during the nine months ended September 30, 2010 is set out below:

|  |                                  | Nine months ended September 30, 2010 |  |                              |         |
|--|----------------------------------|--------------------------------------|--|------------------------------|---------|
|  | Shares arising<br>out of options | Weighted average<br>exercise price   | Weighted average<br>remaining<br>contractual life<br>(years) | Aggregate<br>intrinsic value |         |
| Outstanding as of January 1, 2010  | 20,393,499                       | \$ 10.23                             | 7.2  | \$                           |         |
| Granted  | 1,513,000                        | 15.91                                |  |                              |         |
| Forfeited  | (2,111,876)                      | 13.91                                |  |                              |         |
| Expired  | (66,436)                         | 15.22                                |  |                              |         |
| Exercised  | (2,795,669)                      | 6.45                                 |  |                              | 31,539  |
| Outstanding as of September 30, 2010   | 16,932,518                       | \$ 10.88                             | 6.7  | \$                           | 116,022 |
| Vested and exercisable as of September 30, 2010 and expected to vest thereafter (Note a) | 16,540,956                       | \$ 10.98                             | 6.7  | \$                           | 111,606 |
| Vested and exercisable as of September 30, 2010  | 6,404,899                        | \$ 6.12                              | 5.4  | \$                           | 74,339  |
| Weighted average grant date fair value of grants during the period                       | \$ 6.66                          |                                      |  |                              |         |

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

Effective April 1, 2007, an amendment was made to the Indian Income Tax Act to subject specified securities allotted or transferred by an employer to its employees resident in India to fringe benefit tax, or FBT. When an employee covered under the Indian Income Tax Act exercises a stock option, the shares issued, or allocated and transferred, by the Company to such employee are subject to FBT. The employer liability for FBT arises and is expensed by the Company at the time of such employee's exercise of the stock option.

On August 18, 2009, a further amendment was made to the Indian Income Tax Act, with retroactive effect from April 1, 2009, abolishing the provisions of FBT. Thus any exercises of stock options by the employee on or after April 1, 2009, the shares issued, or allocated and transferred by the Company, would no longer be subject to FBT.

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During the period when FBT was applicable, the Company was entitled to and the Company's plans allowed for the collection of the FBT payable from the employee in connection with and at the time of the stock option exercise. The FBT recovered from the employee was treated as an increase in the exercise price. The weighted average grant date fair value of stock options granted during the period when FBT was applicable, reflected an exercise price that included the recovered tax. The FBT recovery by the Company from an employee was recorded as additional paid-in capital in the Consolidated Statements of Equity and Comprehensive Income (Loss).

**Table of Contents****GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****12. Share-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 nine months ended September 30, 2010 is set out below:

|                                      | <b>Nine months ended September 30, 2010</b> |   |
|--------------------------------------|---|---|
|                                      | <b>Number of Restricted Shares</b>          | <b>Weighted Average Grant Date Fair Value</b> |
| Outstanding as of January 1, 2010    | 47,306                                      | \$ 14.04                                      |
| Granted                              |   |   |
| Vested and allotted                  | (23,653)                                    | 14.04   |
| Forfeited                            |   |   |
| Outstanding as of September 30, 2010 | 23,653                                      | \$ 14.04                                      |

As of September 30, 2010, the total remaining unrecognized share-based compensation costs related to Restricted Shares amounted to \$61 which will be recognized over the weighted average remaining requisite vesting period of 6 months.

***Restricted Share Units***

The Company grants stock awards in the form of 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 and a contractual period of ten years. The compensation expense is recognized on a straight line basis over the vesting term.

A summary of RSUs activity during the nine months ended September 30, 2010 is set out below:

|  | <b>Nine months ended September 30, 2010</b> |   |
|--|---|---|
|  | <b>Number of Restricted Share Units</b>     | <b>Weighted Average Grant Date Fair Value</b> |

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|                                      |          |    |       |
|--------------------------------------|----------|----|-------|
| Outstanding as of January 1, 2010    | 325,000  | \$ | 10.09 |
| Granted                              | 111,000  |    | 14.48 |
| Vested and allotted                  | (37,500) |    | 12.23 |
| Forfeited                            |          |    |       |
| Outstanding as of September 30, 2010 | 398,500  | \$ | 11.11 |

As of September 30, 2010, the total remaining unrecognized share-based compensation costs related to RSUs amounted to \$3,374 which will be recognized over the weighted average remaining requisite vesting period of 2.14 years.

### *Performance Units*

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

During the nine months ended September 30, 2010, the Company granted PUs, wherein each PU represents the right to receive a common share based on the Company's performance against specified targets. These PUs 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 compensation expense is recognized on a straight line basis over the vesting term. 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.

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

A summary of PUs activity during the nine months ended September 30, 2010 is set out below:

|                                      | <b>Nine months ended September 30, 2010</b> |   |
|--------------------------------------|---|---|
|                                      | <b>Number of Performance Units</b>          | <b>Weighted Average Grant<br/>Date Fair Value</b> |
| Outstanding as of January 1, 2010    |   | \$  |
| Granted                              | 1,110,000                                   | 15.20   |
| Vested and allotted                  |   |   |
| Forfeited                            | (31,000)                                    | 16.25   |
| Outstanding as of September 30, 2010 | 1,079,000                                   | \$ 15.17  |

As of September 30, 2010, the total remaining unrecognized share-based compensation costs related to PUs amounted to \$11,222 which will be recognized over the weighted average remaining requisite vesting period of 2.33 years.

**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 nine months ended September 30, 2009 and 2010, common shares issued under the ESPP were 31,327 and 32,389, 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 considered compensatory with effect from September 1, 2009.

The compensation expenses for the ESPP are recognized in accordance with the FASB guidance on Compensation-Stock Compensation. During the nine months and three months ended September 30, 2010, \$51 and \$17, respectively, has been recognized as compensation expense, and has been allocated to cost of revenue and selling, general, and administrative expenses.

**13. Earnings per share**



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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 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 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 13,425,367 and 9,585,407 for the nine months ended September 30, 2009 and 2010, respectively, and is 10,438,965 and 8,752,810 for the three months ended September 30, 2009 and 2010, 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<br>September 30, |             | Nine months ended<br>September 30, |             |
|---|-------------------------------------|-------------|------------------------------------|-------------|
|   | 2009                                | 2010        | 2009                               | 2010        |
| <b>Net income attributable to Genpact Limited common shareholders</b>                         | \$ 33,062                           | \$ 40,131   | \$ 92,712                          | \$ 96,152   |
| Weighted average number of common shares used in computing basic earnings per common share    | 215,794,607                         | 219,630,410 | 215,136,984                        | 218,847,260 |
| Dilutive effect of share based awards   | 6,004,990                           | 5,200,840   | 4,091,890                          | 5,736,234   |
| Weighted average number of common shares used in computing dilutive earnings per common share | 221,799,597                         | 224,831,250 | 219,228,874                        | 224,583,494 |
| <b>Earnings per common share attributable to Genpact Limited common shareholders</b>          |                                     |             |                                    |             |
| Basic   | \$ 0.15                             | \$ 0.18     | \$ 0.43                            | \$ 0.44     |
| Diluted   | \$ 0.15                             | \$ 0.18     | \$ 0.42                            | \$ 0.43     |

**14. Cost of revenue**

Cost of revenue consists of the following:

|                               | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |            |
|-------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                               | 2009                                | 2010       | 2009                               | 2010       |
| Personnel expenses            | \$ 103,935                          | \$ 129,219 | \$ 303,046                         | \$ 365,530 |
| Operational expenses          | 50,980                              | 62,068     | 158,806                            | 167,897    |
| Depreciation and amortization | 12,080                              | 13,546     | 34,664                             | 39,192     |
|                               | \$ 166,995                          | \$ 204,833 | \$ 496,516                         | \$ 572,619 |

**15. Selling, general and administrative expenses**

Selling, general and administrative expenses consist of the following:

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|                               | Three months ended |           | Nine months ended |            |
|-------------------------------|--------------------|-----------|-------------------|------------|
|                               | September 30,      |           | September 30,     |            |
|                               | 2009               | 2010      | 2009              | 2010       |
| Personnel expenses            | \$ 45,356          | \$ 51,263 | \$ 131,900        | \$ 155,206 |
| Operational expenses          | 19,235             | 17,811    | 55,433            | 56,369     |
| Depreciation and amortization | 2,651              | 2,198     | 7,632             | 7,865      |
|                               | \$ 67,242          | \$ 71,272 | \$ 194,965        | \$ 219,440 |

**16. Other income (expense), net**

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

|                             | Three months ended |          | Nine months ended |          |
|-----------------------------|--------------------|----------|-------------------|----------|
|                             | September 30,      |          | September 30,     |          |
|                             | 2009               | 2010     | 2009              | 2010     |
| Interest income             | \$ 1,188           | \$ 1,127 | \$ 5,891          | \$ 3,171 |
| Interest expense            | (725)              | (629)    | (3073)            | (1734)   |
| Secondary offering expenses |                    |          |                   | (591)    |
| Other income (expense)      | (158)              | 712      | 630               | 2478     |
|                             | \$ 305             | \$ 1,210 | \$ 3,448          | \$ 3,324 |

**Table of Contents****GENPACT LIMITED AND ITS SUBSIDIARIES****Notes to the Consolidated Financial Statements****(Unaudited)****(In thousands, except per share data)****17. Income taxes**

As a result of the change in tax status of one of its subsidiaries in the U.S. during the year ended December 31, 2007, the Company recognized the tax effects in the consolidated statement of income for the adjustment in deferred tax liability associated with the unrealized gains on certain effective hedges in other comprehensive income. During the nine months ended September 30, 2010, the Company recognized a reversal of deferred tax liability amounting to \$658 for these hedges that matured in nine months ended on September 30, 2010.

As of December 31, 2009, the Company had unrecognized tax benefits amounting to \$13,195 including an amount of \$13,019 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, 2010 to September 30, 2010:

|   |           |
|---|-----------|
| Opening balance at January 1, 2010  | \$ 13,195 |
| Increase related to prior year tax positions, including recorded against goodwill | 4,500     |
| Effect of exchange rate changes   | 61        |
| Closing balance at September 30, 2010   | \$ 17,756 |

The unrecognized tax benefits as of September 30, 2010 include an amount of \$17,590 that, if recognized, would impact the effective tax rate. As of December 31, 2009 and September 30, 2010, the Company has accrued approximately \$1,930 and \$1,959, respectively, in interest relating to unrecognized tax benefits.

**18. 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 and a customer in which one of the Company's directors has a controlling interest.

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.

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For the nine months ended September 30, 2009 and 2010, the Company recognized net revenues from GE of \$333,909 and \$353,791, respectively, representing 41% and 39%, respectively, of the consolidated total net revenues.

For the three months ended September 30, 2009 and 2010, the Company recognized net revenues from GE of \$111,459 and \$122,673, respectively, representing 39% and 38%, respectively, of the consolidated total net revenues.

For the three months and nine months ended September 30, 2010, the Company recognized net revenues of \$86 and \$220, respectively, from a customer in which one of the Company's directors has a controlling interest.

**Table of Contents**

**GENPACT LIMITED AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**(Unaudited)**

**(In thousands, except per share data)**

**18. 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 nine months ended September 30, 2009 and 2010, cost of revenue, net of recovery, included amounts of \$4,334 and \$3,542, respectively, and for the three months ended September 30, 2009 and 2010, cost of revenue, net of recovery, included amounts of \$1,571 and \$960, respectively, relating to services procured from GE. In addition, cost of revenue also includes a credit adjustment of \$3,499 due to re-negotiation of certain service contracts. For the nine months ended September 30, 2009 and 2010, cost of revenue from services also include training & recruitment cost of \$474 and \$897 respectively, and \$113 and \$318 for the three months ended September 30, 2009 and 2010, 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 nine months ended September 30, 2009 and 2010, selling, general and administrative expenses, net of recovery, included amounts of \$314 and \$420, respectively, and for the three months ended September 30, 2009 and 2010, selling, general and administrative expenses, net of recovery, included amounts of \$117 and \$107, respectively, relating to services procured from GE. For the nine months ended September 30, 2009 and 2010, selling, general, and administrative expenses also include a cost recovery, net, of \$586 and \$397, respectively, and for the three months ended September 30, 2009 and 2010, selling, general, and administrative expenses also include a cost recovery, net, of \$159 and \$97, respectively, in relation to cost recovery 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 nine months ended September 30, 2009 and 2010, income from these services was (\$3,368) and (\$1,867), respectively, and for the three months ended September 30, 2009 and 2010, income from these services was (\$935) and (\$626), respectively.

*Interest income*

The Company earned interest income on short-term deposits placed with GE. For the nine months ended September 30, 2009 and 2010, interest income earned on these deposits was \$1,845 and \$118, respectively, and for the three months ended September 30, 2009 and 2010, interest income earned on these deposits was \$236 and \$0, respectively.

*Interest expense*

The Company incurred interest expense on finance lease obligations from GE. For the nine months ended September 30, 2009 and 2010, interest expense relating to such related party debt amounted to \$318 and \$265, respectively, and for the three months ended September 30, 2009 and 2010, interest expense relating to such related party debt amounted to \$106 and \$123, respectively.

*Investment in equity affiliates*

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During the nine months ended September 30, 2009 and 2010, the Company has made an investment of \$296 and \$2,324, respectively, in its non-consolidating affiliates and for the three months ended September 30, 2009 and 2010, the Company has made an investment of \$0 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)**

**19. Commitments and contingencies**

***Capital commitments***

As of December 31, 2009 and September 30, 2010, the Company has commitment to spend \$33,493 and \$7,238 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 amounting to \$1,242 and \$2,007 as of December 31, 2009 and September 30, 2010, 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 Delivery Centers in India are 100% Export Oriented units or Software Technology Parks of India ( STPI ) units under the STPI guidelines issued by the Government of India or are under qualifying operations of the Special Economic Zones Act, 2005. 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.



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**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, 2009 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, 2009. 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, 2009.*

**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, 2009. 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;

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our rate of employee attrition;

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 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;

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 and South African rand;

**Table of Contents**

the selling cycle for our client relationships;

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

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

our ability to retain senior management;

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

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;

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

the international nature of our business;

technological innovation;

unionization of any of our employees;

our ability to derive revenue from new service offerings; and

our ability to successfully consummate or integrate strategic acquisitions.

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 filed with the SEC.

**Overview**

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We are a leader in managing business processes, offering a broad portfolio of enterprise and industry-specific services. We manage over 3,000 processes for more than 400 clients worldwide. Putting process in the forefront, we couple our deep process knowledge and insights with focused information technology capabilities, targeted analytics 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 (SEP<sup>SM</sup>), 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 September 30, 2010, we have approximately 43,300 employees with operations in thirteen countries. In the third quarter of 2010, we had net revenues of \$321.6 million, of which 61.9% 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.

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**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 Luxembourg entity. 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., or GICo, an entity owned in equal portions by General Atlantic LLC, or General Atlantic, and Oak Hill Capital Partners, or Oak Hill. On December 16, 2005, GE's affiliate sold a portion of its equity in us to a subsidiary of Wachovia Corporation. Wachovia Corporation merged with Wells Fargo & Company on December 31, 2008. On December 22, 2006, we redeemed certain shares held by GE affiliates. On December 18, 2007, GE's affiliate, GE Capital (Mauritius) Holdings Ltd., sold a further portion of its equity in us to an affiliate of a limited partner of one of our shareholders. GE further divested its shares pursuant to our secondary offering completed on March 24, 2010. As of September 30, 2010, GE, through its affiliates, owned 9.1% of our outstanding equity.

Following the 2004 Reorganization, we began operating as an independent company. We separated ourselves operationally from GE and began building the capabilities necessary to be successful as an independent company. Among other things, we expanded our management infrastructure and business development capabilities so that we could secure business from clients other than GE. We substantially expanded administrative functions for which we had previously relied primarily on GE, such as finance, legal, accounting and human resources. We set up separate employee benefit and retirement plans, developed our own leadership training capability and enhanced our management information systems.

***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.

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 expenses of approximately \$0.6 million included under 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.

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In January 2010, we acquired 27% of the outstanding equity in High Performance Partners, LLC, or HPP, a company focused on developing and applying innovative technology solutions for the mortgage industry, for cash consideration of \$2.0 million. The Company follows the equity method of accounting to account for this investment.

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 and entered into a ten year master professional services agreement, or MPSA, with Walgreens, for cash consideration of \$16.3 million. Pursuant to the terms of the MPSA, approximately 500 Walgreens accounting employees in Danville were transferred to Genpact in May 2010. By virtue of the

**Table of Contents**

combination of the acquisition of the delivery center and the entry into the MPSA, we have acquired an integrated set of activities and assets capable of being managed and conducted for the purpose of providing returns to us, and this arrangement qualifies as a business combination. This transaction was consummated in the second quarter of 2010 upon completion of certain closing conditions and has been accounted for as 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. The acquisition of Symphony was accounted for as a business combination in accordance with the acquisition method.

**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, 2009.

**Results of Operations**

The following table sets forth certain data from our income statement in absolute amounts and as a percentage of net revenues for the three months and nine months ended September 30, 2009 and 2010.

|  | Three months ended<br>September 30, |               |                |               | Nine months ended<br>September 30, |               |                |               |
|--|-------------------------------------|---------------|----------------|---------------|------------------------------------|---------------|----------------|---------------|
|  | 2009                                |               | 2010           |               | 2009                               |               | 2010           |               |
|  | (dollars in millions)               |               |                |               | (dollars in millions)              |               |                |               |
| Net revenues GE  | \$ 111.5                            | 39.2%         | \$ 122.7       | 38.1%         | \$ 333.9                           | 40.6%         | \$ 353.8       | 38.6%         |
| Net revenues Global Clients  | 173.0                               | 60.8%         | 198.9          | 61.9%         | 489.2                              | 59.4%         | 563.6          | 61.4%         |
| <b>Total net revenues</b>  | <b>284.4</b>                        | <b>100.0%</b> | <b>321.6</b>   | <b>100.0%</b> | <b>823.1</b>                       | <b>100.0%</b> | <b>917.4</b>   | <b>100.0%</b> |
| Cost of revenue  | 167.0                               | 58.7%         | 204.8          | 63.7%         | 496.5                              | 60.3%         | 572.6          | 62.4%         |
| <b>Gross profit</b>  | <b>117.4</b>                        | <b>41.3%</b>  | <b>116.7</b>   | <b>36.3%</b>  | <b>326.6</b>                       | <b>39.7%</b>  | <b>344.8</b>   | <b>37.6%</b>  |
| Operating expenses   |                                     |               |                |               |                                    |               |                |               |
| Selling, general and administrative expenses   | 67.2                                | 23.6%         | 71.3           | 22.2%         | 195.0                              | 23.7%         | 219.4          | 23.9%         |
| Amortization of acquired intangible assets   | 6.4                                 | 2.2%          | 3.9            | 1.2%          | 19.7                               | 2.4%          | 12.2           | 1.3%          |
| Other operating (income) expense, net  | (1.1)                               | 0.4%          | (0.8)          | 0.3%          | (4.0)                              | 0.5%          | (4.8)          | 0.5%          |
| <b>Income from operations</b>  | <b>44.9</b>                         | <b>15.8%</b>  | <b>42.4</b>    | <b>13.2%</b>  | <b>115.9</b>                       | <b>14.1%</b>  | <b>118.0</b>   | <b>12.9%</b>  |
| Foreign exchange (gains) losses, net   | 2.6                                 | 0.9%          | (5.5)          | 1.7%          | 2.0                                | 0.2%          | 0.1            | 0.0%          |
| Other income (expense), net  | 0.3                                 | 0.1%          | 1.2            | 0.4%          | 3.4                                | 0.4%          | 3.3            | 0.4%          |
| <b>Income before share of equity in (earnings) loss of affiliates and income tax expense</b> | <b>42.6</b>                         | <b>15.0%</b>  | <b>49.2</b>    | <b>15.3%</b>  | <b>117.3</b>                       | <b>14.3%</b>  | <b>121.2</b>   | <b>13.2%</b>  |
| Equity in loss of affiliates   | 0.2                                 | 0.1%          | 0.1            | 0.0           | 0.6                                | 0.1%          | 0.7            | 0.1%          |
| <b>Income before income tax expense</b>  | <b>42.5</b>                         | <b>14.9%</b>  | <b>49.0</b>    | <b>15.3%</b>  | <b>116.7</b>                       | <b>14.2%</b>  | <b>120.5</b>   | <b>13.1%</b>  |
| Income tax expense   | 7.9                                 | 2.8%          | 7.5            | 2.3%          | 18.4                               | 2.2%          | 19.6           | 2.1%          |
| <b>Net Income</b>  | <b>34.6</b>                         | <b>12.2%</b>  | <b>41.6</b>    | <b>12.9%</b>  | <b>98.3</b>                        | <b>11.9%</b>  | <b>100.9</b>   | <b>11.0%</b>  |
| Net income attributable to noncontrolling interest   | 1.5                                 | 0.5%          | 1.4            | 0.4           | 5.6                                | 0.7%          | 4.8            | 0.5%          |
| <b>Net income attributable to Genpact Limited shareholders</b>                               | <b>\$ 33.1</b>                      | <b>11.6%</b>  | <b>\$ 40.1</b> | <b>12.5%</b>  | <b>\$ 92.7</b>                     | <b>11.3%</b>  | <b>\$ 96.2</b> | <b>10.5%</b>  |

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|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| <b>Net income available to Genpact Limited<br/>common shareholders</b> | <b>33.1</b> | <b>40.1</b> | <b>92.7</b> | <b>96.2</b> |
|--|-------------|-------------|-------------|-------------|

29



**Table of Contents****Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009**

*Net revenues.* Our net revenues increased by \$37.1 million, or 13.1%, in the third quarter of 2010 compared to the third quarter of 2009. Our growth in net revenues is primarily on account of growth in business process management services for new Global Clients and GE. Our total headcount increased by 14.9% to approximately 43,300 at the end of the third quarter of 2010 from approximately 37,700 at the end of the third quarter of 2009. Our revenue per employee was approximately \$31.6 thousand in the third quarter of 2009 which decreased to approximately \$31.2 thousand in the third quarter of 2010. The slight decrease in our revenue per employee is primarily because our revenue per employee in the third quarter of 2009 benefited from a \$4 million receipt from one of our Global Clients for cancellations.

Net revenues from GE increased by \$11.2 million, or 10.1%. 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, 2009, 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 third quarter of 2010 increased 10.5% over the third quarter of 2009 after excluding such dispositions by GE in 2009 and 2010. This increase was primarily driven by growth in information technology and business process management service offerings across GE businesses partially offset by price reductions in certain statements of work, or SOWs. As a result of the growth in revenues from Global Clients, GE net revenues declined as a percentage of our total net revenues from 39.2% in the third quarter of 2009 to 38.1% in the third quarter of 2010.

Net revenues from Global Clients increased by \$25.9 million, or 15.0% compared to the third quarter of 2009. This increase resulted from new business from clients added in the last twelve months, including Walgreens and clients of Symphony, partially offset by a decline in information technology services for Global Clients. 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 \$1.2 million as described above. As a percentage of total net revenues, net revenues from Global Clients increased from 60.8% in the third quarter of 2009 to 61.9% in the third quarter of 2010.

Revenues from business process management services increased to 86.3% of total net revenues in the third quarter of 2010 from 84.9% in the third quarter of 2009. Revenues from business process management grew 14.9% from the third quarter of 2009 to \$277.4 million in the third quarter of 2010. The increase in business process management revenues was primarily due to new business from Global Clients added in the last twelve months, including clients of Symphony. We also saw growth in finance & accounting, analytics and supply chain service offerings for GE. Revenue from our information technology business increased by \$1.3 million, or 2.9%, in the third quarter of 2010 compared to the third quarter of 2009. The increase in our information technology services revenue is driven by GE Commercial Finance and Healthcare, partially offset by volume and price reductions in our SAP offerings in Europe. As a percentage of net revenues, revenue from our information technology business declined to 13.7% in the third quarter of 2010 from 15.1% in the third quarter of 2009.

*Cost of revenue.* The following table sets forth the components of our cost of revenue in absolute amounts and as a percentage of net revenues:

|                               | Three Months Ended<br>September 30, |              |                 |              |
|-------------------------------|-------------------------------------|--------------|-----------------|--------------|
|                               | 2009                                |              | 2010            |              |
|                               | (dollars in millions)               |              |                 |              |
| Personnel expenses            | \$ 103.9                            | 36.5%        | \$ 129.2        | 40.2%        |
| Operational expenses          | 51.0                                | 17.9         | 62.1            | 19.3         |
| Depreciation and amortization | 12.1                                | 4.2          | 13.5            | 4.2          |
| <b>Cost of revenue</b>        | <b>\$ 167.0</b>                     | <b>58.7%</b> | <b>\$ 204.8</b> | <b>63.7%</b> |

Cost of revenue increased by \$37.8 million, or 22.7%. As a percentage of net revenues, cost of revenue increased from 58.7% in the third quarter of 2009 to 63.7% in the third quarter of 2010. This increase in cost of revenue is on account of increased headcount and infrastructure costs incurred in anticipation of transitions for new contracts which were delayed. The increase in cost of revenue is also on account of lower realization on our contracted Indian rupee-U.S. dollar hedges in 2010 compared to 2009.

The largest component of increase in the cost of revenue was personnel expenses, which increased by \$25.3 million, or 24.3%. This increase in absolute amount was primarily due to the hiring of new resources to manage growth. The increase also reflects overall wage inflation and the impact of foreign exchange volatility as described above. As a result, our personnel expenses as a percentage of net revenues increased from 36.5% in the third quarter of 2009 to 40.2% in the third quarter of 2010.



**Table of Contents**

Operational expenses increased by \$11.1 million, or 21.8%. The increase in operational expenses is on account of increased infrastructure costs incurred in anticipation of transitions for new contracts which were delayed and higher pass through costs recoverable from clients such as travel and living, and foreign exchange volatility as described above. The operational expenses as a percentage of net revenues increased from 17.9% in the third quarter of 2009 to 19.3% in the third quarter of 2010.

Depreciation and amortization expenses increased by \$1.5 million, or 12.1%. The increase was largely due to capital expenditures incurred for expansion of infrastructure and IT related facilities over the last twelve months in India (Gurgaon), the Philippines and Europe to support growth, and higher costs as a result of foreign exchange volatility during the quarter as described above. As a percentage of net revenues, depreciation and amortization expenses remained constant at 4.2% in the third quarter of 2010 in comparison to the third quarter of 2009.

As a result of the foregoing, our gross profit decreased marginally by \$0.7 million, or 0.6%, and our gross margin decreased from 41.3% in the third quarter of 2009 to 36.3% in the third quarter of 2010.

*Selling, general and administrative expenses.* The following table sets forth the components of our selling, general and administrative expenses in absolute amounts and as a percentage of net revenues:

|   | Three Months Ended<br>September 30, |              |                |              |
|---|-------------------------------------|--------------|----------------|--------------|
|   | 2009                                | 2010         |                | 2010         |
|   | (dollars in millions)               |              |                |              |
| Personnel expenses                                  | \$ 45.4                             | 15.9%        | \$ 51.3        | 15.9%        |
| Operational expenses                                | 19.2                                | 6.8          | 17.8           | 5.5          |
| Depreciation and amortization                       | 2.7                                 | 0.9          | 2.2            | 0.7          |
| <b>Selling, general and administrative expenses</b> | <b>\$ 67.2</b>                      | <b>23.6%</b> | <b>\$ 71.3</b> | <b>22.2%</b> |

Selling, general and administrative expenses, or SG&A expenses, increased by \$4.0 million, or 6.0%. This was primarily due to increased personnel expenses. In addition, the increase is also on account of lower realization on our contracted Indian rupee-U.S. dollar hedges in 2010 compared to 2009. As a percentage of net revenues, SG&A expenses decreased from 23.6% in the third quarter of 2009 to 22.2% in the third quarter of 2010.

Personnel expenses increased by \$5.9 million, or 13.0%. The increase in personnel expenses is primarily due to an increase in senior level employees in our business development team as well as general wage inflation and foreign exchange volatility as described above. As a percentage of net revenues, personnel expenses remained constant at 15.9% in the third quarter of 2010 in comparison to the third quarter of 2009.

The operational expenses component of SG&A expenses decreased by \$1.4 million, or 7.4%. This decrease is attributable to cost rationalization measures in overhead expenses such as communication, facility maintenance, marketing, and a higher credit in indirect taxes in India, partially offset by higher costs as a result of foreign exchange volatility as described above. As a result, operational expenses as a percentage of net revenues decreased from 6.8% in the third quarter of 2009 to 5.5% in the third quarter of 2010.

Depreciation and amortization expenses as a component of SG&A expenses decreased by \$0.5 million to \$2.2 million in the third quarter of 2010. This decrease in depreciation and amortization expenses is due to lower growth in the number of support personnel as compared to headcount increase in operations in the third quarter of 2010 in comparison to the third quarter of 2009, and consequent reduced allocation to SG&A. This decrease was partially offset by higher costs as a result of foreign exchange volatility as described above.

*Amortization of acquired intangibles.* In the third quarter of 2009 and 2010, we continued to incur non-cash charges of \$6.4 million and \$3.9 million, respectively, consisting primarily of 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 \$0.8 million in the third quarter of 2010 compared to \$1.1 million in the third quarter of 2009. 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.



**Table of Contents**

*Income from operations.* As a result of the foregoing factors, income from operations decreased by \$2.5 million to \$42.4 million in the third quarter of 2010 primarily due to receipt of \$4 million from one of our Global Clients related to cancellations in the third quarter of 2009. As a percentage of net revenues, income from operations decreased from 15.8% in the third quarter of 2009 to 13.2% in the third quarter of 2010.

*Foreign exchange (gains) losses, net.* We recorded a foreign exchange gain of \$5.5 million in the third quarter of 2010, primarily due to the re-measurement of our non-functional currency assets and liabilities and related foreign exchange contracts resulting from movements in the Indian rupee and U.S. dollar exchange rates in the third quarter of 2010 compared to a foreign exchange loss of \$2.6 million in the third quarter of 2009, which also included the impact of the discontinuance of certain cash flow hedges in the third quarter of 2009.

*Other income (expense), net.* We recorded other income including interest income, net of interest expense, of \$1.2 million in the third quarter of 2010 compared to \$0.3 million in the third quarter of 2009. The change was driven by an increase in other income in the third quarter of 2010 compared to third quarter of 2009. In addition, our interest expense reduced from \$0.7 million in the third quarter of 2009 to \$0.6 million in the third quarter of 2010 due to repayment of long-term loans and reduction in the weighted average rate of interest with respect to outstanding long-term loans under our credit facility from 1.8% in the third quarter of 2009 to 1.3% in the third quarter of 2010.

*Income before share of equity in (earnings) loss of affiliates and income tax expense.* As a result of the foregoing factors, income before share of equity in (earnings) loss of affiliates and income tax expense increased by \$6.5 million. As a percentage of net revenues, income before share of equity in (earnings) loss of affiliates and income tax expense increased from 15.0% in the third quarter of 2009 to 15.3% in the third quarter of 2010.

*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 HPP.

*Income before income tax expense.* As a result of the foregoing factors, income before income tax expense increased by \$6.6 million. As a percentage of net revenues, income before income tax expense increased from 14.9% of net revenues in third quarter of 2009 to 15.3% of net revenues in the third quarter of 2010.

*Income tax expense.* Our income tax expense decreased from \$7.9 million in the third quarter of 2009 to \$7.5 million for the third quarter of 2010. This decrease is primarily driven by certain tax benefits recorded in the third quarter of 2010 based on recent favorable court and administrative rulings, as well as certain changes to the Company's jurisdictional mix of income. Also, in the third quarter of 2009, we recorded one-time foreign currency gains in certain high tax countries resulting in higher tax expense. This has been partially offset by the expiry of the Indian tax holiday for our major site at Hyderabad effective April 1, 2009, and the expiry of certain other tax benefits, including the reversal of certain deferred tax liabilities on derivatives, that we were able to use in prior years.

*Net income.* As a result of the foregoing factors, net income increased by \$7.0 million from \$34.6 million in the third quarter of 2009 to \$41.6 million in the third quarter of 2010. As a percentage of net revenues, our net income was 12.2% in the third quarter of 2009 and 12.9% in the third quarter of 2010.

*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 decreased from \$1.5 million in the third quarter of 2009 to \$1.4 million in third quarter of 2010. The decline is primarily due to volume and price reductions in our SAP offerings in Europe.

*Net income attributable to Genpact Limited shareholders.* As a result of the foregoing factors, net income attributable to Genpact Limited shareholders increased by \$7.1 million from \$33.1 million in the third quarter of 2009 to \$40.1 million in the third quarter of 2010. As a percentage of net revenues, our net income was 11.6% in the third quarter of 2009 and 12.5% in the third quarter of 2010.

***Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009***

*Net revenues.* Our net revenues increased by \$94.3 million, or 11.5%, in the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. Our growth in net revenues is from business from new clients and GE. Our total headcount increased by 13.6% to approximately 43,300 as of September 30, 2010 from approximately 37,700 as of September 30, 2009. Our revenue per employee was approximately \$30.9 thousand in the nine months ended September 30, 2009 which decreased to approximately \$30.6 thousand in the nine months ended September 30, 2010 due to an increase in the number of personnel hired for future growth and receipt of one-time income of \$4 million from one of our Global Clients for cancellations in the nine months ended September 30, 2009.



**Table of Contents**

Net revenues from GE increased by \$19.9 million, or 6.0%. 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, 2009, 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 nine months ended September 30, 2010 increased 6.0% over the nine months ended September 30, 2009 after excluding such dispositions by GE in 2009 and 2010. This increase was primarily driven by growth in finance and accounting, analytics and supply chain service offerings partially offset by volume and price reductions in certain SOWs. As a result of the growth in revenues from Global Clients, GE net revenues declined as a percentage of our total net revenues from 40.6% in the nine months ended September 30, 2009 to 38.6% in the nine months ended September 30, 2010.

Net revenues from Global Clients increased by \$74.4 million, or 15.2%. This increase resulted from new business from clients added in the last twelve months, including Walgreens and clients of Symphony, partially offset by decline in information technology services for Global Clients. 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 \$1.9 million as described above. In addition, the increase in revenue is attributable to the strengthening of the Pound sterling and Australian dollar against the U.S. dollar, as a portion of our Global Clients revenues are received in such currencies. As a percentage of total net revenues, net revenues from Global Clients increased from 59.4% in the nine months ended September 30, 2009 to 61.4% in the nine months ended September 30, 2010.

Revenues from business process management services increased to 85.9% of total net revenues in the nine months ended September 30, 2010 from 83.8% in the nine months ended September 30, 2009. Revenue from business process management services business grew 14.2% from the nine months ended September 30, 2009 to \$787.7 million in the nine months ended September 30, 2010. The increase in business process management revenues was primarily due to new business from Global Clients added in the last twelve months, including clients of Symphony. We also saw growth in finance and accounting, analytics and supply chain service offerings for GE. Revenue from our information technology business decreased by \$3.6 million, or 2.7%, in the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009, due to reduction in spending on discretionary information technology projects by GE over the first half of 2010 as well as a volume and price reductions in our SAP offerings in Europe. As a percentage of net revenues, revenue from our information technology business declined to 14.1% in the nine months ended September 30, 2010 from 16.2% in the nine months ended September 30, 2009.

*Cost of revenue.* The following table sets forth the components of our cost of revenue in absolute amounts and as a percentage of net revenues:

|                               | Nine Months Ended<br>September 30, |              |                 |              |
|-------------------------------|------------------------------------|--------------|-----------------|--------------|
|                               | 2009                               |              | 2010            |              |
|                               | (dollars in millions)              |              |                 |              |
| Personnel expenses            | \$ 303.0                           | 36.8%        | \$ 365.5        | 39.8%        |
| Operational expenses          | 158.8                              | 19.3         | 167.9           | 18.3         |
| Depreciation and amortization | 34.7                               | 4.2          | 39.2            | 4.3          |
| <b>Cost of revenue</b>        | <b>\$ 496.5</b>                    | <b>60.3%</b> | <b>\$ 572.6</b> | <b>62.4%</b> |

Cost of revenue increased by \$76.1 million, or 15.3%. As a percentage of net revenues, cost of revenue increased from 60.3% in the nine months ended September 30, 2009 to 62.4% in the nine months ended September 30, 2010. This increase is on account of increased headcount and infrastructure costs incurred in anticipation of transitions for new contracts which were delayed and general growth of our business. The increase in cost of revenue is also on account of lower realization on our contracted Indian rupee-U.S. dollar hedges in the first nine months of 2010 compared to the first nine months of 2009.

The largest component of the increase in cost of revenue was personnel expenses, which increased by \$62.5 million, or 20.6%. This increase in absolute amount was primarily due to the hiring of new resources to manage growth including employees added through acquisitions in the first half of 2010. The increase also reflects overall wage inflation and the impact of foreign exchange volatility as described above. As a result, our personnel expenses as a percentage of net revenues increased from 36.8% in the nine months ended September 30, 2009 to 39.8% in the nine months ended September 30, 2010.

Operational expenses increased by \$9.1 million, or 5.7%. The increase in operational expenses is as a result of increased infrastructure costs incurred in anticipation of transitions for new contracts which were delayed and higher pass through costs recoverable from clients such as travel and living, and foreign exchange volatility as described above. This increase was partially off-set by the cost rationalization measures in

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overheads such as communication and other costs. The operational expenses as a percentage of net revenues decreased from 19.3% in the nine months ended September 30, 2009 to 18.3% in the nine months ended September 30, 2010.



**Table of Contents**

Depreciation and amortization expenses increased by \$4.5 million, or 13.1%. The increase was largely due to capital expenditures incurred for expansion of infrastructure and IT related facilities over the last twelve months in India (Gurgaon), Americas and Europe to support growth, and higher costs as a result of foreign exchange volatility as described above. As a percentage of net revenues, depreciation and amortization expenses increased marginally from 4.2% in the nine months ended September 30, 2009 to 4.3% in the nine months ended September 30, 2010.

As a result of the foregoing, our gross profit increased by \$18.2 million, or 5.6%, and our gross margin decreased from 39.7% in the nine months ended September 30, 2009 to 37.6% in the nine months ended September 30, 2010.

*Selling, general and administrative expenses.* The following table sets forth the components of our selling, general and administrative expenses in absolute amounts and as a percentage of net revenues:

|   | Nine Months Ended<br>September 30, |                       |                 |              |
|---|------------------------------------|-----------------------|-----------------|--------------|
|   | 2009                               | (dollars in millions) |                 | 2010         |
| Personnel expenses                                  | \$ 131.9                           | 16.0%                 | \$ 155.2        | 16.9%        |
| Operational expenses                                | 55.4                               | 6.7                   | 56.4            | 6.1          |
| Depreciation and amortization                       | 7.6                                | 0.9                   | 7.9             | 0.9          |
| <b>Selling, general and administrative expenses</b> | <b>\$ 195.0</b>                    | <b>23.7%</b>          | <b>\$ 219.4</b> | <b>23.9%</b> |

Selling, general and administrative expenses, or SG&A expenses, increased by \$24.5 million, or 12.6%. As a percentage of net revenues, SG&A expenses increased marginally from 23.7% in the nine months ended September 30, 2009 to 23.9% in the nine months ended September 30, 2010. This increase in SG&A expenses was primarily due to increased personnel expenses. The increase in selling, general and administrative expenses is also on account of lower realization on our contracted Indian rupee-U.S. dollar hedges in the first nine months of 2010 compared to the first nine months of 2009.

Personnel expenses increased by \$23.3 million, or 17.7%. The increase in personnel expenses is primarily due to an increase in senior level employees in our business development team as well as general wage inflation. In addition, this increase was attributable to higher costs as a result of foreign exchange volatility as described above. As a result, personnel expenses as a percentage of net revenues increased from 16.0% in the nine months ended September 30, 2009 to 16.9% in the nine months ended September 30, 2010.

The operational expenses component of SG&A expenses increased by \$0.9 million, or 1.7%. This increase is attributable to higher travel related expenses for business development activities, increased expenditure related to Smart Enterprise Processes (SEP<sup>sm</sup>) and higher costs as a result of foreign exchange volatility as described above, offset by the cost rationalization measures in overheads such as communication and other costs, reduction in the reserve for doubtful debts due to collection of old doubtful receivables in the first half of 2010 and a higher credit in indirect taxes in India. As a result, operational expenses as a percentage of net revenues decreased from 6.7% in the nine months ended September 30, 2009 to 6.1% in the nine months ended September 30, 2010.

Depreciation and amortization expenses as a component of SG&A expenses increased marginally by \$0.2 million to \$7.9 million in the nine months ended September 30, 2010. This increase in depreciation and amortization expenses is due to higher capital expenditure incurred for expansion of existing Delivery Centers over the last twelve months and higher costs as a result of foreign exchange volatility as described above.

*Amortization of acquired intangibles.* In the nine months ended September 30, 2009 and 2010, we continued to incur significant non-cash charges of \$19.7 million and \$12.2 million, respectively, consisting primarily of the amortization of acquired intangibles resulting from the 2004 Reorganization, consistent with the amortization schedule.

*Other operating (income) expense, net.* Other operating income, consisting 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, increased to \$4.8 million in the nine months ended September 30, 2010 compared to \$4.0 million in the nine months ended September 30, 2009 mainly due to reversal of the provision of \$1.3 million in the first quarter of 2010 for employee related statutory liabilities in one of our subsidiaries. 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.

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*Income from operations.* As a result of the foregoing factors, income from operations increased by \$2.1 million to \$118.0 million in the nine months ended September 30, 2010. As a percentage of net revenues, income from operations decreased from 14.1% in the nine months ended September 30, 2009 to 12.9% in the nine months ended September 30, 2010.

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**Table of Contents**

*Foreign exchange (gains) losses, net.* We recorded a foreign exchange loss of \$0.1 million for the nine months ended September 30, 2010, primarily due to the re-measurement of our non-functional 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 nine months of 2010 compared to a foreign exchange loss of \$2.0 million in the nine months ended September 30, 2009, net of the impact of the discontinuance of certain cash flow hedges in the nine months ended September 30, 2009.

*Other income (expense), net.* We recorded other income including interest income, net of interest expense, of \$3.3 million in the nine months ended September 30, 2010 compared to \$3.4 million in the nine months ended September 30, 2009. The change was driven by a decrease in interest income in the first nine months of 2010 due to investment in U.S. Treasury bills compared to our investment in higher interest bearing deposits in the first nine months of 2009. This decrease was partially offset by decrease in interest expense due to repayment of a portion of our long-term loan and increase in other income by \$2.5 million. In addition, weighted average rate of interest with respect to outstanding long-term loans under our credit facility was reduced from 1.8% in the nine months ended September 30, 2009 to 1.1% in the nine months ended September 30, 2010.

*Income before share of equity in (earnings) loss of affiliates and income tax expense.* As a result of the foregoing factors, income before share of equity in (earnings) loss of affiliates and income tax expense increased by \$3.9 million. As a percentage of net revenues, income before share of equity in (earnings) loss of affiliates and income tax expense decreased from 14.3% in the nine months ended September 30, 2009 to 13.2% of net revenues in the nine months ended September 30, 2010.

*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 HPP.

*Income before income tax expense.* As a result of the foregoing factors, income before income tax expense increased by \$3.8 million. As a percentage of net revenues, income before income tax expense decreased from 14.2% of net revenues in the nine months ended September 30, 2009 to 13.1% of net revenues in the nine months ended September 30, 2010.

*Income tax expense.* Our income tax expense increased from \$18.4 million in the nine months ended September 30, 2009 to \$19.6 million for the nine months ended September 30, 2010. This increase is driven by higher profits, the expiry of the Indian tax holiday for our major site at Hyderabad effective April 1, 2009, as well as the expiry of certain other tax benefits, including the reversal of certain deferred tax liabilities on derivatives that we were able to use in prior years. This has been partially offset by certain tax benefits recorded in the third quarter of 2010 based on recent favorable court and administrative rulings, as well as certain changes to the Company's jurisdictional mix of income.

*Net income.* As a result of the foregoing factors, net income increased by \$2.7 million from \$98.3 million in the nine months ended September 30, 2009 to \$100.9 million in the nine months ended September 30, 2010. As a percentage of net revenues, our net income was 11.9% in the nine months ended September 30, 2009 and 11.0% in the nine months ended September 30, 2010.

*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 decreased from \$5.6 million in the nine months ended September 30, 2009 to \$4.8 million in nine months ended September 30, 2010. The decline is primarily due to volume and price reductions in our SAP offerings in Europe in the nine months ended September 30, 2010.

*Net income attributable to Genpact Limited shareholders.* As a result of the foregoing factors, net income attributable to Genpact Limited shareholders increased by \$3.4 million from \$92.7 million in the nine months ended September 30, 2009 to \$96.2 million in the nine months ended September 30, 2010. As a percentage of net revenues, our net income was 11.3% in the nine months ended September 30, 2009 and 10.5% in the nine months ended September 30, 2010.

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

Information about our financial position as of December 31, 2009 and September 30, 2010 is presented below:

|   | As of December 31,<br>2009 | As of September 30,<br>2010 | %       |
|---|----------------------------|-----------------------------|---------|
|   | (dollars in millions)      |                             | Change  |
| Cash and cash equivalents                     | \$ 288.7                   | \$ 360.9                    | 25.0%   |
| Short-term investment                         | 132.6                      | 43.0                        | (67.6)  |
| Short-term deposits with related party        | 9.6                        |                             | (100.0) |
| Short term borrowings                         | 0.2                        |                             | (100.0) |
| Long-term debt due within one year            | 44.7                       | 37.4                        | (16.4)  |
| Long-term debt other than the current portion | 25.0                       |                             | (100.0) |
| Genpact Limited total shareholders equity     | \$ 1,197.4                 | \$ 1,377.7                  | 15.1%   |

**Financial Condition**

We finance our operations and our expansion with cash from operations and short-term borrowing facilities. We also incurred \$180 million of long-term debt to finance in part the 2004 Reorganization.

Our cash and cash equivalents were \$360.9 million as of September 30, 2010 compared to \$288.7 million as of December 31, 2009. Our cash and cash equivalents are comprised of (a) \$98.0 million in cash in current accounts across all operating locations to be used for working capital and immediate capital requirements, (b) \$179.4 million in term deposits with banks to be used for medium term planned expenditure and capital requirements, (c) \$83.5 million in U.S. Treasury bills with an original maturity of less than three months.

In addition, we held \$43.0 million in U.S. Treasury bills and withdrew all short-term deposits with GE India affiliates as of September 30, 2010, compared to \$132.6 million of U.S. Treasury bills and \$9.6 million of short term deposits with GE India affiliates as of December 31, 2009.

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:

|   | Nine Months Ended<br>September 30,<br>2009      2010 |                    |
|---|--|--------------------|
|   | (dollars in millions)                                |                    |
| Net cash provided by (used for)               |  |                    |
| Operating activities                          | \$ 123.5   | \$ 78.0            |
| Investing activities                          | (21.1)   | 7.7                |
| Financing activities                          | (44.8)   | (22.4)             |
| <br>Net increase in cash and cash equivalents | <br><b>\$ 57.6</b>                                   | <br><b>\$ 63.3</b> |

*Cash flow from operating activities.* Our net cash provided by operating activities was \$78.0 million in the nine months ended September 30, 2010 as compared to \$123.5 million in the nine months ended September 30, 2009. The year on year decline was primarily due to incremental working capital of \$10.8 million related to the acquisition of Symphony including acquired current liabilities of \$5.4 million, deposits for infrastructure investments of \$4.0 million, change in accounts receivable by \$22.6 million due to higher revenues and an increase in our credit

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period with GE implemented over the course of last year resulting in higher days sales outstanding, and reduction in current liabilities and income taxes payable.

## **Table of Contents**

*Cash flow from investing activities.* Our net cash provided by investing activities was \$7.7 million in the nine months ended September 30, 2010 compared to \$21.1 million of net cash used for investing activities in the nine months ended September 30, 2009. We paid \$47.7 million in the nine months ended September 30, 2010 for purchases of property, plant and equipment in connection with the expansion of existing Delivery Centers and capital expenditures payable compared to \$43.9 million in the nine months ended September 30, 2009. We realized \$89.6 million from the sale of U.S. Treasury bills and \$9.7 million from redemption of deposits with GE India, net of amount invested, during the nine months ended September 30, 2010, as compared to \$2.6 million invested in U.S. Treasury bills and \$43.9 million realized from redemption of deposits with GE India, net of amount invested, during the nine months ended September 30, 2009. Further, during the first nine months of 2010 we paid \$42.6 million for business acquisitions, net of cash acquired, as compared to \$20.2 million in the first nine months of 2009. We made an investment of \$2.3 million in a non-consolidating affiliate in the first nine months of 2010 compared to \$0.3 million in the first nine months of 2009.

*Cash flow from financing activities.* Our net cash used for financing activities was \$22.4 million in the nine months ended September 30, 2010, compared to \$44.8 million in the nine months ended September 30, 2009. We repaid \$32.5 million of our long term debt as part of our scheduled repayments under our credit agreement and \$0.2 million of our short-term borrowings drawn in the fourth quarter of 2009 in the nine months ended September 30, 2010 as compared to repayment of \$20.0 million of long term debt and \$25 million of our short-term borrowings in the nine months ended September 30, 2009. In addition, we paid the noncontrolling partners of ICE \$4.7 million in the nine months ended September 30, 2010 compared to \$5.6 million in the nine months ended September 30, 2009. We received \$18.5 million as proceeds from the issuance of common shares on exercise of employee stock options in the nine months ended September 30, 2010 as compared to \$7.7 million in the nine months ended September 30, 2009.

### ***Financing Arrangements***

Total long-term debt excluding capital lease obligations was \$37.4 million as of September 30, 2010 compared to \$69.7 million as of December 31, 2009, which represented long-term debt primarily related to the 2004 Reorganization. The decrease in long-term debt is due to repayment as per the repayment schedule in accordance with the terms of the loan agreement. The weighted average rate of interest with respect to outstanding long-term loans under the credit facility was 1.8% and 1.1% for the nine months ended September 30, 2009 and 2010, respectively.

We finance our short-term working capital requirements through cash flow from operations and credit facilities from banks and financial institutions. As of September 30, 2010, short-term credit facilities available to the Company aggregated \$145.0 million, which are under the same agreement as our long-term debt facility. As of September 30, 2010, a total of \$11.5 million was utilized, which represented non-funded drawdown.

### ***Goodwill Impairment Testing***

We test goodwill for impairment at least on an annual basis on September 30. Goodwill of a reporting unit is 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. Determining whether an impairment has occurred requires valuation of the respective reporting units, which we estimate using a discounted cash flow model. The valuation of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions which we believe to be reasonable but that are unpredictable and inherently uncertain and accordingly actual results may differ from these estimates. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, terminal growth rates, future economic and market conditions. We derived our discount rate using the capital asset pricing model and analyzing published rates for industries relevant to our reporting units to estimate the cost of equity financing. We used a discount rate that is commensurate with the risks and uncertainties in the business and our internally developed forecasts. The results of our evaluation as of September 30, 2010, showed that the fair values of all our reporting units exceeded their book values. Based upon our analysis at September 30, 2010, the estimated fair value for each of our reporting unit exceeded its carrying value by at least 79%.

In line with our long term strategy and focus for the technology business, we decided to integrate one of our reporting units (ICE), together with the India software practice included under the India reporting unit. As a result of the difference in the operating models between the India software practice and ICE, prior to the integration we operated the two businesses as independent operations with separate service offerings and clients. Through the end of 2009, synergies that may have been available between the two businesses were not utilized, and when one business pursued an opportunity at another segment's client, limited or no effort was taken to pursue or solution the opportunity jointly. As a result, we were not able to provide the most optimum solution to our clients and our win rates were less than we would have liked. Considering the inefficiencies in managing the software operations of each business independently, and given the market trend that SAP services are being delivered not by a local unit but globally with a mix of on-site and off-shore resources, we have integrated the operations of ICE with our India software operations. This integration enabled us to leverage the business experience, SAP certifications, and resources more effectively and provide a global service delivery model. As of September 1, 2010, the ICE and India software business are being managed as one business, and

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accordingly the targets and reporting have been re-aligned to that effect.

As a result of this change, we tested goodwill contained in the ICE reporting unit for impairment as of August 31, 2010, prior to the integration with the India software practice, for events and conditions identified in accordance with the guidance in ASC 350, Intangibles - Goodwill and Other . The fair value of this reporting unit was calculated using a discounted cash flow model using estimated future cash flows. The results of our testing showed that, as of August 31, 2010, the fair value of this reporting unit exceeded its book value.

**Table of Contents****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 September 30, 2010:

|   | Less than 1 year | 1-3 years      | 4-5 years      | After 5 years | Total           |
|---|------------------|----------------|----------------|---------------|-----------------|
| Long-term debt                            | \$ 37.4          | \$             | \$             | \$            | \$ 37.4         |
| Capital leases                            | 2.0              | 2.6            | 0.1            |               | 4.8             |
| Operating leases                          | 26.3             | 43.7           | 72.1           |               | 142.1           |
| Purchase obligations                      | 7.7              |                |                |               | 7.7             |
| Capital commitments net of advances       | 7.2              |                |                |               | 7.2             |
| Other long-term liabilities (1)           | 83.7             | 40.3           | 1.4            |               | 125.4           |
| <b>Total contractual cash obligations</b> | <b>\$ 164.4</b>  | <b>\$ 86.6</b> | <b>\$ 73.7</b> | <b>\$</b>     | <b>\$ 324.6</b> |

(1) Excludes \$17.8 million related to uncertain tax positions. For such amount, the extent of the amount and timing of payment or cash settlement is not reliably estimable or determinable, at present.

**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, 2009.

*Recently issued accounting pronouncements*

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. The Company does not expect a significant impact upon adoption of the provisions of the FASB guidance on the Company's consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

During the nine months ended September 30, 2010, 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, 2009.

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



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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 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 Securities Exchange Act of 1934 (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.

**Table of Contents**

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 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.

***Changes in Internal Controls Over Financial Reporting***

There have been no changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**Table of Contents**

**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, 2009 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, 2009 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 \$92.5 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 and acquired Symphony for \$29.3 million in February 2010. The remaining proceeds are invested in short-term deposit accounts and U.S. Treasury bills. 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**

| <b>Exhibit</b> |   |
|----------------|---|
| <b>Number</b>  | <b>Description</b>  |
| 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).                 |
| 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, 2009 and September 30, 2010, (ii) Consolidated Statements of Income for the three months and nine months ended September 30, 2009 and September 30, 2010, (iii) Consolidated Statement of Equity and Comprehensive Income (Loss) for the nine months ended September 30, 2009 and September 30, 2010, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2009 and September 30, 2010, 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.

**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: November 9, 2010

GENPACT LIMITED

By:                    /s/ PRAMOD BHASIN  
                          **Pramod Bhasin**  
                          **Chief Executive Officer**

                          /s/ MOHIT BHATIA  
                          **Mohit Bhatia**  
                          **Chief Financial Officer**

**Table of Contents**

| <b>Exhibit</b> |   |
|----------------|---|
| <b>Number</b>  | <b>Description</b>  |
| 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).                 |
| 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.*                         |
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