Genpact LTD
Form 10-Q
November 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period ended September 30, 2013

Or

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

Commission file number: 001-33626

GENPACT LIMITED

(Exact name of registrant as specified in its charter)

Bermuda	**98-0533350**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

Canon s Court

22 Victoria Street

Hamilton HM 12

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 x 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 x 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 x	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 x

The number of the registrant s common shares, par value $0.01 per share, outstanding as of October 28, 2013 was 230,183,725.

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Item 1. Financial Statements

GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Balance Sheets

(Unaudited)

(In thousands, except per share data and share count)

	Notes	As of December 31, 2012	As of September 30, 2013
Assets			
Current assets			
Cash and cash equivalents	4	$ 459,228	$ 481,498
Accounts receivable, net	5	451,960	476,997
Accounts receivable from related party, net	5, 20	29	63
Short term deposits		18,292	17,505
Deferred tax assets	19	48,489	61,654
Prepaid expenses and other current assets		150,769	179,402
Total current assets		**$ 1,128,767**	**$ 1,217,119**
Property, plant and equipment, net	8	200,362	168,374
Deferred tax assets	19	91,383	102,878
Investment in equity affiliates	20	416	349
Customer-related intangible assets, net	9	84,748	79,250
Marketing-related intangible assets, net	9	21,585	20,628
Other intangible assets, net	9	6,054	7,054
Goodwill	9	956,064	950,424
Other assets		116,548	98,059
Total assets		**$ 2,605,927**	**$ 2,644,135**

See accompanying notes to the Consolidated Financial Statements.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Balance Sheets

(Unaudited)

(In thousands, except per share data and share count)

	Notes	As of December 31, 2012	As of September 30, 2013
Liabilities and equity			
Current liabilities			
Short-term borrowings	13	$ 80,000	$
Current portion of long-term debt	14	4,982	4,256
Current portion of capital lease obligations		1,301	1,384
Accounts payable		18,652	15,281
Income taxes payable	19	22,304	58,936
Deferred tax liabilities	19	538	384
Accrued expenses and other current liabilities		390,041	401,476
Total current liabilities		**$ 517,818**	**$ 481,717**
Long-term debt, less current portion	14	656,879	654,664
Capital lease obligations, less current portion		2,533	2,736
Deferred tax liabilities	19	6,068	5,539
Other liabilities		250,848	297,955
Total liabilities		**$ 1,434,146**	**$ 1,442,611**
Shareholders equity			
Preferred shares, $0.01 par value, 250,000,000 authorized, none issued			
Common shares, $0.01 par value, 500,000,000 authorized, 225,480,172 and 230,147,557 issued and outstanding as of December 31, 2012 and September 30, 2013, respectively		2,253	2,300
Additional paid-in capital		1,202,448	1,252,122
Retained earnings		281,982	462,857
Accumulated other comprehensive income (loss)		(318,272)	(517,791)
Genpact Limited shareholders equity		**$ 1,168,411**	**$ 1,199,488**
Noncontrolling interest		3,370	2,036
Total equity		**$ 1,171,781**	**$ 1,201,524**
Commitments and contingencies	22		
Total liabilities and equity		**$ 2,605,927**	**$ 2,644,135**

See accompanying notes to the Consolidated Financial Statements.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Income

(Unaudited)

(In thousands, except per share data and share count)

	Notes	Three months ended September 30, 2012	Three months ended September 30, 2013	Nine months ended September 30, 2012	Nine months ended September 30, 2013
Net revenues					
Net revenues from services others		$ 490,987	$ 534,696	$ 1,393,780	$ 1,572,967
Net revenues from services related party	20	170	190	487	571
Total net revenues		491,157	534,886	1,394,267	1,573,538
Cost of revenue					
Services	15, 20	297,253	329,289	847,940	973,729
Total cost of revenue		297,253	329,289	847,940	973,729
Gross profit		**$ 193,904**	**$ 205,597**	**$ 546,327**	**$ 599,809**
Operating expenses:					
Selling, general and administrative expenses	16, 20	118,536	117,005	337,794	348,632
Amortization of acquired intangible assets	9	6,014	5,867	17,094	17,603
Other operating (income) expense, net	17	(598)	(3,232)	(2,111)	(4,320)
Income from operations		**$ 69,952**	**$ 85,957**	**$ 193,550**	**$ 237,894**
Foreign exchange (gains) losses, net		13,220	(10,817)	(5,086)	(24,619)
Other income (expense), net	18	(14,932)	(3,454)	(15,755)	(19,104)
Income before Equity-method investment activity, net and income tax expense		**$ 41,800**	**$ 93,320**	**$ 182,881**	**$ 243,409**
Equity-method investment activity, net		(50)	(32)	(24)	(139)
Income before income tax expense		**$ 41,850**	**$ 93,352**	**$ 182,905**	**$ 243,548**
Income tax expense	19	15,239	21,921	53,239	58,403
Net Income		**$ 26,611**	**$ 71,431**	**$ 129,666**	**$ 185,145**
Net income attributable to noncontrolling interest		1,436	1,169	4,851	4,270
Net income attributable to Genpact Limited shareholders		**$ 25,175**	**$ 70,262**	**$ 124,815**	**$ 180,875**
Net income available to Genpact Limited common shareholders	12	$ 25,175	$ 70,262	$ 124,815	$ 180,875
Earnings per common share attributable to Genpact Limited common shareholders	12				
Basic		$ 0.11	$ 0.31	$ 0.56	$ 0.79
Diluted		$ 0.11	$ 0.30	$ 0.55	$ 0.77
Weighted average number of common shares used in computing earnings per common share attributable to Genpact Limited common					

shareholders				
Basic	223,876,035	230,057,508	223,289,507	228,840,746
Diluted	230,195,834	236,336,924	228,516,391	235,095,660

See accompanying notes to the Consolidated Financial Statements.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(In thousands)

	Three months ended September 30,				Nine months ended September 30,			
	2012		2013		2012		2013	
	Genpact Limited Shareholders	Noncontrolling interest	Genpact Limited Shareholders	Noncontrolling interest	Genpact Limited Shareholders	Noncontrolling interest	Genpact Limited Shareholders	Noncontrolling interest
Net Income	25,175	1,436	70,262	1,169	124,815	4,851	180,875	4,270
Other comprehensive income:								
Currency translation adjustments	77,970	(157)	(44,370)	31	12,506	(256)	(136,108)	65
Net income (loss) on cash flow hedging derivatives, net of taxes (Note 7)	74,027		(33,963)		40,786		(63,411)	
Other comprehensive income (loss)	$ 151,997	(157)	(78,333)	$ 31	$ 53,292	(256)	(199,519)	$ 65
Comprehensive income	177,172	1,279	(8,071)	1,200	178,107	4,595	(18,644)	4,335

See accompanying notes to the Consolidated Financial Statements.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Equity

(Unaudited)

(In thousands, except share count)

	Genpact Limited Shareholders						
	Common shares		Additional		Accumulated Other	Non	
	No. of Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income (loss)	controlling interest	Total Equity
Balance as of January 1, 2012	**222,347,968**	**$ 2,222**	**$ 1,146,203**	**$ 605,386**	**$ (320,753)**	**$ 2,625**	**$ 1,435,683**
Issuance of common shares on exercise of options (Note 11)	1,461,981	15	18,731				18,746
Issuance of common shares under the employee stock purchase plan (Note 11)	63,106	1	937				938
Net settlement on vesting of restricted share units (Note 11)	243,696	2	(1,748)				(1,746)
Distribution to noncontrolling interest						(3,961)	(3,961)
Stock-based compensation expense (Note 11)			22,856				22,856
Comprehensive income:							
Net income				124,815		4,851	129,666
Other comprehensive income (loss)					53,292	(256)	53,036
Dividend (Note 21)				(501,620)			(501,620)
Balance as of September 30, 2012	**224,116,751**	**$ 2,240**	**$ 1,186,979**	**$ 228,581**	**$ (267,461)**	**$ 3,259**	**$ 1,153,598**

See accompanying notes to the Consolidated Financial Statements.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Equity

(Unaudited)

(In thousands, except share count)

	Genpact Limited Shareholders						
	Common shares		Additional Paid-	Retained	Accumulated Other Comprehensive	Non controlling	Total
	No. of shares	Amount	in Capital	Earnings	Income (loss)	interest	Equity
Balance as of January 1, 2013	225,480,172	**$ 2,253**	**$ 1,202,448**	**$ 281,982**	**$ (318,272)**	**$ 3,370**	**$ 1,171,781**
Issuance of common shares on exercise of options (Note 11)	3,784,851	38	33,979				34,017
Issuance of common shares under the employee stock purchase plan (Note 11)	81,040	1	1,371				1,372
Net settlement on vesting of restricted share units (Note 11)	305,382	3	(2,538)				(2,535)
Net settlement on vesting of performance units (Note 11)	496,112	5	(5,069)				(5,064)
Disposition of noncontrolling interest						(1,055)	(1,055)
Distribution to noncontrolling interest						(4,614)	(4,614)
Stock-based compensation expense (Note 11)			21,931				21,931
Comprehensive income:							
Net income				180,875		4,270	185,145
Other comprehensive income (loss)					(199,519)	65	(199,454)
Balance as of September 30, 2013	**230,147,557**	**$ 2,300**	**$ 1,252,122**	**$ 462,857**	**$ (517,791)**	**$ 2,036**	**$ 1,201,524**

See accompanying notes to the Consolidated Financial Statements

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GENPACT LIMITED AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine months ended September 30	
	2012	**2013**
Operating activities		
Net income attributable to Genpact Limited shareholders	$ 124,815	$ 180,875
Net income attributable to noncontrolling interest	4,851	4,270
Net income	**$ 129,666**	**$ 185,145**
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	41,609	40,270
Amortization of debt issue costs (including loss on extinguishment of debt)	7,468	5,215
Amortization of acquired intangible assets	17,149	17,603
Reserve for doubtful receivables	2,780	8,919
Reserve for mortgage loans	107	
Unrealized (gain) loss on revaluation of foreign currency asset/liability	(1,307)	(5,646)
Equity-method investment activity, net	(24)	(139)
Stock-based compensation expense	22,856	21,931
Deferred income taxes	(9,297)	4,194
Others, net	2,287	5,872
Change in operating assets and liabilities:		
Increase in accounts receivable	(45,209)	(30,613)
Increase in other assets	(64,645)	(35,014)
Decrease in accounts payable	(3,876)	(797)
Increase (Decrease) in accrued expenses and other current liabilities	29,994	(24,601)
Increase in income taxes payable	45,688	37,103
Increase in other liabilities	34,226	3,775
Net cash provided by operating activities	**$ 209,472**	**$ 233,217**
Investing activities		
Purchase of property, plant and equipment	(60,141)	(37,061)
Proceeds from sale of property, plant and equipment	374	2,996
Investment in affiliates	(205)	
Short term deposits placed	(25,638)	(55,259)
Redemption of short term deposits	25,638	51,955
Payment for business acquisitions, net of cash acquired	(53,931)	(49,235)
Proceeds from divestiture of business, net of cash divested (refer note 3C(a))		(1,049)
Net cash used for investing activities	**$ (113,903)**	**$ (87,653)**
Financing activities		
Repayment of capital lease obligations	(1,684)	(1,284)
Proceeds from long-term debt	675,000	121,410
Repayment of long-term debt	(105,000)	(121,410)
Proceeds from Short-term borrowings	80,000	35,000
Repayment of Short-term borrowings	(252,350)	(115,000)

Proceeds from issuance of common shares under stock-based compensation plans		19,684		35,389
Payment for net settlement of stock-based awards		(1,746)		(7,599)
Payment of earn-out consideration		(587)		(3,868)
Cost incurred in relation to Debt amendment and refinancing		(14,438)		(8,104)
Distribution to noncontrolling interest		(3,961)		(4,614)
Dividend paid		(501,620)		
Net cash used for financing activities	**$**	**(106,702)**	**$**	**(70,080)**
Effect of exchange rate changes		(2,384)		(53,214)
Net increase (decrease) in cash and cash equivalents		(11,133)		75,484
Cash and cash equivalents at the beginning of the period		408,020		459,228
Cash and cash equivalents at the end of the period	**$**	**394,503**	**$**	**481,498**
Supplementary information				
Cash paid during the period for interest	$	5,785	$	25,484
Cash paid during the period for income taxes	$	65,708	$	52,805
Property, plant and equipment acquired under capital lease obligation	$	1,955	$	1,933

See accompanying notes to the Consolidated Financial Statements.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data and share count)

1. Organization

Nature of Operations

The Company is a global leader in transforming and running business processes and operations, including those that are complex and industry-specific. The Company s mission is to help clients become more competitive by making their enterprises more intelligent through becoming more adaptive, innovative, globally effective and connected to their own clients. Genpact stands for Generating Impact visible in better management of risk, regulations, costs and growth for hundreds of long-term clients, including more than 100 of the Fortune Global 500. The Company s approach is distinctive it offers an unbiased, agile combination of smarter processes, crystallized in its Smart Enterprise Processes (SEP^{SM}) proprietary framework, along with analytics and technology, which limits upfront investments and enhances future adaptability. The Company has 60,000+ employees in 24 countries with key management and corporate offices in New York City. Behind the Company s single-minded passion for process and operational excellence is the Lean and Six Sigma heritage of a former General Electric division that has served GE businesses for more than 15 years.

Prior to December 30, 2004, the business of the Company was conducted through various entities and divisions of the General Electric Company (GE). On December 30, 2004, in a series of transactions referred to as the 2004 Reorganization, GE transferred such operations to the Company. In August 2007, the Company completed an initial public offering of its common shares, pursuant to which the Company and certain of its existing shareholders each sold 17,647,059 common shares. On March 24, 2010, the Company completed a secondary offering of its common shares pursuant to which GE s shareholding in the Company decreased to 9.1% and it ceased to be a significant shareholder, although it continued to be a related party. During the year ended December 31, 2012, GE s shareholding subsequently declined to less than 5.0%, as a result of which GE is no longer considered a related party.

On December 14, 2012, a secondary offering of the Company s common shares by General Atlantic (GA) and Oak Hill Capital Partners (OH) was completed. Upon the completion of the secondary offering, GA and OH each owned approximately 2.4% of the Company s common shares outstanding, and they ceased to be significant shareholders and related parties.

2012 Recapitalization

On August 1, 2012, the Company announced that Glory Investments A Limited, formerly known as South Asia Private Investments and an affiliate of Bain Capital Investors, LLC (Bain Capital), had entered into an agreement to purchase approximately 67,750,678 common shares of the Company from affiliates of GA and OH for $14.76 per share, or approximately $1,000,000, after payment by the Company of a special cash dividend of $2.24 per share. The special cash dividend was declared by the Company s board of directors on August 30, 2012, and paid on September 24, 2012 to holders of record as of September 10, 2012. On October 25, 2012, Bain Capital and its affiliated assignees completed the purchase of 57,537,264 common shares of the Company. As permitted under the share purchase agreement, two additional co-investors (RGIP, LLC, an investor in certain investment funds which are affiliated with Bain Capital, and Twickenham Investment Private Limited, an affiliate of the Government of Singapore Investment Corporation Private Limited) purchased the remaining 50,812 shares and 10,162,602 shares of the Company, respectively, covered by the share purchase agreement.

On August 30, 2012, the Company terminated its previous credit facility of $380,000 and entered into a new credit facility of $925,000, to repay the previous credit facility, fund a portion of the special cash dividend, pay fees and expenses in connection with the foregoing and to provide for general corporate purposes of the Company, including working capital requirements. Net proceeds from the credit facility along with cash on hand were partially used to fund the dividend payment of $2.24 per share, or $501,620 in the aggregate, which was paid on all issued and outstanding common shares. In accordance with the terms of the Company s stock-based compensation plans, in order to preserve the value of stock-based awards outstanding as of the record date, the Company reduced the exercise price per share of each outstanding stock option award and increased the number of shares in relation to all outstanding stock-based awards as of the record date of the special cash dividend. This transaction, together with other related transactions, is referred to as the 2012 Recapitalization. In June 2013, the Company amended its credit facility with a consortium of financial institutions as described in Note 14.

The Company incurred expenses of approximately $23,464 for the 2012 Recapitalization excluding the fees associated with the previous credit facility and the new credit facility. Out of the total expenses of $23,464, $6,237 was incurred and recorded as a part of selling, general and administrative expenses in the Consolidated Statements of Income for the year ended December 31, 2012. The balance of the total expenses of approximately $17,227 relating to the share purchase transaction were incurred and accrued as of December 31, 2012 and reported as a part of other income (expense), net in the Consolidated Statements of Income for the year ended December 31, 2012. GA and OH, collectively, reimbursed $17,000 of the $17,227 to the Company on October 25, 2012 at the closing of the share purchase transaction in accordance with the letter agreement among the Company, GA and OH. This reimbursement was recorded as a part of other income (expense), net in the Consolidated Statements of Income for the year ended December 31, 2012.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data and share count)

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 note 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, 2012.

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

The accompanying unaudited interim consolidated financial statements have been prepared on a consolidated basis and reflect the financial statements of Genpact Limited and all of its subsidiaries that are more than 50% owned and controlled. 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 intercompany 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 the noncontrolling shareholders interest in the operation of Hello Communications (Shanghai) Co., Ltd. and the profits or losses associated with the noncontrolling interest in those operations. The noncontrolling partners of Genpact Netherlands B.V. are individually liable for the tax obligations on their shares 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.

(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 reserve for doubtful receivables, the valuation allowance for deferred tax assets, the valuation of derivative financial instruments, the measurements of stock-based compensation, assets and obligations related to employee benefits, income tax uncertainties and other contingencies. Management believes that the estimates used in the preparation of the consolidated financial statements are reasonable. Although these estimates are based upon management s knowledge of current events and actions, actual results could differ from these estimates. Any changes in estimates are adjusted prospectively in the consolidated financial statements.

(c) Business combinations, goodwill and other intangible assets

The Company accounts for its business combinations by recognizing the identifiable tangible and intangible assets acquired and liabilities assumed, and any noncontrolling interest in the acquired business, measured at their acquisition date fair values. Contingent consideration is included within the acquisition cost and is recognized at its fair value on the acquisition date. A liability resulting from contingent consideration is remeasured to fair value at each reporting date until the contingency is resolved. Changes in fair value are recognized in earnings. All assets and liabilities of the acquired businesses, including goodwill, are assigned to reporting units. Acquisition related costs are expensed as incurred under Selling, General and Administrative Expenses.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data and share count)

2. Summary of significant accounting policies (Continued)

Goodwill represents the cost of acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased. Goodwill is not amortized but is tested for impairment at least on an annual basis on December 31, based on a number of factors including operating results, business plans and future cash flows. The Company performs an assessment of qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Based on the assessment of events or circumstances, the Company performs the quantitative assessment of goodwill impairment if it determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If based on the quantitative impairment analysis the carrying value of the goodwill of the reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. In addition, the Company performs the qualitative assessment of Goodwill 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. See note 9 for information and related disclosures.

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

Customer-related intangible assets	1-14 years
Marketing-related intangible assets	1-10 years
Contract-related intangible assets	1 year
Other intangible assets	3-9 years

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

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

(d) Financial instruments and concentration of credit risk

Financial instruments that potentially subject the Company to concentration of credit risk are reflected principally in cash and cash equivalents, short term deposits, derivative financial instruments and accounts receivable. The Company places its cash and cash equivalents and derivative financial instruments with corporations and banks with high investment grade ratings, limits the amount of credit exposure with any one corporation or bank and conducts ongoing evaluations of the creditworthiness of the corporations and banks with which it does business. To reduce its credit risk on accounts receivable, the Company conducts ongoing credit evaluations of its clients. GE accounted for 30% and 27% of receivables as of December 31, 2012 and September 30, 2013, respectively. GE accounted for 26% and 23% of revenues for the nine months ended September 30, 2012 and 2013, respectively, and for 26% and 22% of revenues for the three months ended September 30, 2012 and 2013, respectively.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data and share count)

2. Summary of significant accounting policies (Continued)

(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 standard has been adopted by the Company and certain disclosures in the consolidated financial statements and notes to the consolidated financial statements have been modified accordingly. Adoption of this standard did not have a material impact on the consolidated results of operations, cash flows, financial position or disclosures:

Effective January 1, 2013, the Company adopted FASB ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02). ASU 2013-02 amended existing guidance by requiring additional disclosure either on the face of the income statement or in the notes to the financial statements of significant amounts reclassified out of accumulated other comprehensive income. ASU 2013-02 requires prospective adoption and affects financial statement disclosure only.

(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. The impact of such reclassifications on the consolidated financial statements is not material.

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data and share count)

3. Business acquisitions and divestitures

A. Acquisitions

(a) Third Pillar Systems, Inc.

On August 30, 2013, the Company acquired certain assets, including contracts, and assumed certain liabilities of Third Pillar Systems, Inc., a Nevada corporation (Third Pillar) for cash consideration of $2,500. As a part of the transaction, the Company also hired employees of Third Pillar. With this transaction, the Company has acquired an integrated set of processes and assets capable of independently providing returns to the Company. Third Pillar is a provider of software solutions for the commercial lending and leasing industry. There are no contingent consideration arrangements in connection with the acquisition. Of the cash consideration of $2,500, the Company has held back $225 in accordance with the terms of the asset purchase agreement.

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

Cash consideration	$ 2,500
Recognized amounts of identifiable assets acquired and liabilities assumed	
Current assets	$ 375
Intangible assets	298
Other non-current assets	24
Current liabilities	(200)
Total identifiable net assets acquired	**$ 497**
Goodwill	2,003
Total	**$ 2,500**

Through this transaction, the Company has acquired an end to end platform and processes to supplement its commercial lending and leasing portfolio, thereby strengthening the Company s service offerings in this industry. Goodwill representing the excess of the purchase consideration over the net assets acquired is deductible for tax purposes and has been allocated to the India reporting unit. The above technology related intangible asset has an estimated useful life of 8 years.

(b) NGEN Media Services Private Limited

On March 28, 2013, the Company acquired the remaining 50% of the outstanding equity interest in NGEN Media Services Private Limited, a private limited company organized under the laws of India (NGEN), and thereby increased its interest from 50% to 100%, providing the Company control over NGEN as a wholly owned subsidiary. NGEN is engaged in the business of media services outsourcing.

The Company acquired the remaining 50% equity interest for cash consideration of $158. There are no contingent consideration arrangements in connection with the acquisition. The Company previously accounted for its 50% interest in NGEN as an equity method investment. The Company remeasured this equity interest to fair value at the acquisition date and recognized a loss of $5 in the Consolidated Statements of Income under equity-method investment activity, net.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data and share count)

3. Business acquisitions and divestitures (Continued)

The following table summarizes the consideration paid to acquire NGEN and the fair value of assets acquired and liabilities assumed as of the acquisition date, as well as the fair value of the Company s existing investment in NGEN as of the acquisition date:

Cash consideration	$ 158
Acquisition date fair value of the Company s investment in NGEN held before the business combination	158
Total	**$ 316**
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 432
Current assets	402
Tangible fixed assets	27
Other non-current assets	89
Current liabilities	(337)
Other liabilities	(274)
Total identifiable net assets acquired	**$ 339**
Gain recognized on acquisition	(23)
Total	**$ 316**

(c) Jawood Business Process Solutions, LLC and Felix Software Solutions Private Limited

On February 6, 2013, the Company acquired 100% of the outstanding membership interest in Jawood Business Process Solutions, LLC, a Michigan limited liability company (Jawood) for cash consideration of $51,000, subject to adjustment based on closing date net working capital, indebtedness and cash and cash equivalents. There are no contingent consideration arrangements in connection with the acquisition.

The transaction also included the acquisition of 100% of the outstanding shares of Felix Software Solutions Private Limited, a company organized under the laws of India (Felix), for cash consideration of $2,295, subject to adjustment based on closing date net working capital. There are no contingent consideration arrangements in connection with the acquisition of Felix.

Jawood and Felix (collectively referred to as the Jawood business) are, respectively, U.S. and India based providers of business consulting and information technology services to the healthcare payer industry. Felix is a key sub-contractor to Jawood. This transaction strengthens the Company s solutions and services offerings in the healthcare payer market.

Pursuant to the terms of the acquisition agreements with the respective sellers, the purchase consideration for the Jawood business is comprised of the following:

Base purchase price	$ 53,295
Closing date net working capital adjustment	(3,821)
Closing date indebtedness adjustment	(2,202)

Closing date cash adjustment	1,304
Seller expenses	(1,379)
Total purchase price	**$ 47,197**

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GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data and share count)

3. Business acquisitions and divestitures (Continued)

During the period ended September 30, 2013, the Company recorded a measurement period adjustment that resulted in a decrease in the purchase consideration by $1,089 with a corresponding change in goodwill. The measurement period adjustment did not have a significant impact on the Company s consolidated statements of income, balance sheets or cash flows in any period and, thus, were recorded during the period ended September 30, 2013. The total amount paid by the Company to acquire the Jawood business, net of cash acquired of $1,364 and including seller expenses amounting to $1,379, was $47,212.

The acquisition of the Jawood business has been accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. The assets and liabilities of the Jawood business are recorded at fair value as of the date of acquisition. The following table summarizes the allocation of the purchase price based on the fair value of assets acquired and liabilities assumed as of the date of acquisition including measurement period adjustments:

Purchase price	$ 47,197
Acquisition related costs included in selling, general and administrative expenses	310
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 1,364
Current assets	6,477
Tangible fixed assets	704
Intangible assets	11,200
Other non-current assets	548
Current liabilities	(7,866)
Long term liabilities	(56)
Total identifiable net assets acquired	**$ 12,371**
Goodwill	34,826
Total	**$ 47,197**

Goodwill representing the excess of the purchase price over the net assets acquired has been allocated to the India reporting unit and is deductible for tax purposes to the extent of $32,656. The amortizable intangible assets are being amortized over their estimated useful lives using a method of amortization that reflects the expected pattern in which the economic benefits of the intangible assets will be consumed or otherwise realized. The value and estimated useful lives of the intangible assets are as follows:

	Value	Estimated useful life
Customer related intangible assets	$ 10,200	1 7 years
Marketing related intangible assets	1,000	1 5 years

The weighted average amortization period in respect of the acquired intangible assets is 6 years.

The results of operations of the Jawood business and the fair value of its assets and liabilities have been included in the Company s Consolidated Financial Statements with effect from February 6, 2013, the date of acquisition.

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GENPACT LIMITED AND ITS SUBSIDIARIES

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(Unaudited)

(In thousands, except per share data and share count)

3. Business acquisitions and divestitures (Continued)

(d) Atyati Technologies Private Limited

On September 4, 2012, the Company acquired 100% of the outstanding common and preferred stock of Atyati Technologies Private Limited, an Indian private limited company (Atyati), a cloud-hosted technology platform provider for the rural banking sector in India. This acquisition gives the Company a platform-based banking solution for the rural and semi-rural consumer market.

The Company acquired Atyati for initial cash consideration of $19,368, subject to adjustment based on closing date final working capital. The acquisition agreement also provided for additional deferred consideration which had a discounted value of $2,539 and earn-out consideration (ranging from $0 to $14,372 based on gross profit for the year ending March 31, 2014) which had an estimated fair value of $1,487.

Pursuant to the terms of the acquisition agreement with the sellers, the purchase consideration is comprised of the following:

Cash consideration	$ 19,368
Acquisition date discounted value of deferred consideration	2,539
Acquisition date fair value of earn-out consideration	1,487
Working capital adjustment	
Total purchase price	**$ 23,394**

During the period ended June 30, 2013, the Company recorded a measurement period adjustment which resulted in a decrease in the deferred tax asset of $827, an increase in other non-current assets of $194 and an increase in goodwill of $633. The measurement period adjustment did not have a significant impact on the Company s consolidated statements of income, balance sheets or cash flows in any period and, thus, were recorded during the period ended June 30, 2013.

The acquisition has been accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. The assets and liabilities of Atyati were recorded at fair value as of the date of acquisition. The following table summarizes the allocation of the purchase price based on the fair value of assets acquired and liabilities assumed as of the date of acquisition including measurement period adjustments:

Purchase price	**$ 23,394**
Acquisition related costs included in selling, general and administrative expenses	164
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 2,000
Current assets	5,265
Tangible fixed assets	426
Intangible assets	8,767
Deferred tax asset/ (liability), net	(2,557)
Other non-current assets	369
Current liabilities	(3,424)

Short term borrowings	(654)
Other liabilities	(737)
Total identifiable net assets acquired	**$ 9,455**
Goodwill	13,939
Total	**$ 23,394**

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GENPACT LIMITED AND ITS SUBSIDIARIES

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(Unaudited)

(In thousands, except per share data and share count)

3. Business acquisitions and divestitures (Continued)

Goodwill recorded in connection with the Atyati acquisition amounted to $13,939, representing the excess of the purchase price over the net assets (including deferred taxes) acquired, has been allocated to the India reporting unit and is not deductible for tax purposes. The amortizable intangible assets are being amortized over their estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise realized.

The value and estimated useful lives of the intangibles are as follows:

	Value	Estimated useful life
Customer related intangibles	$ 5,408	4 9 years
Other intangibles	3,359	7 years

The weighted average amortization period in respect of the acquired intangible assets is 7 years. The results of operations of Atyati and the fair value of its assets and liabilities have been included in the Company s Consolidated Financial Statements with effect from September 4, 2012, the date of acquisition.

(e) Triumph Engineering, Corp. and Triumph On-Demand, Inc.

On August 17, 2012, the Company acquired 100% of the outstanding equity interest in Triumph Engineering, Corp. and Triumph On-Demand Inc., both Ohio corporations (collectively the Triumph Companies). The Triumph Companies are U.S. based providers of engineering services to the aviation, energy, and oil and gas industries. This acquisition provides the Company with capabilities in the engineering services space.

The Company acquired the Triumph Companies for initial cash consideration of $3,600, subject to adjustment based on working capital and closing indebtedness. The acquisition agreement provided for additional deferred consideration which had a discounted value of $379, and earn-out consideration (ranging from $0 to $4,500 based on gross profit for the years ending December 31, 2013 and 2014) which had an estimated fair value of $3,256.

Pursuant to the terms of the acquisition agreement with the seller, the purchase consideration is comprised of the following:

Cash consideration	$ 3,600
Acquisition date fair value of deferred consideration	379
Acquisition date fair value of earn-out consideration	3,256
Working capital adjustment	(848)
Closing indebtedness adjustment	(941)
Total purchase price	**$ 5,446**

During the period ended June 30, 2013, the Company recorded a measurement period adjustment which resulted in a decrease in the purchase consideration of $13 with a corresponding change in goodwill.

The acquisition has been accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. The assets and liabilities of the Triumph Companies were recorded at fair value as of the date of acquisition. The following table summarizes the allocation of the purchase price based on the fair value of assets acquired and liabilities assumed as of the date of acquisition:

Purchase price	**$ 5,446**
Acquisition related costs included in selling, general and administrative expenses	134
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 312
Current assets	1,708
Tangible fixed assets	175
Intangible assets	382
Deferred tax asset/ (liability), net	(565)
Current liabilities	(720)
Short term borrowing	(350)
Total identifiable net assets acquired	**$ 942**
Goodwill	4,504
Total	**$ 5,446**

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GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data and share count)

3. Business acquisitions and divestitures (Continued)

Goodwill recorded in connection with the acquisition of the Triumph Companies amounted to $4,504, representing the excess of the purchase price over the net assets (including deferred taxes) acquired, has been allocated to the India reporting unit and is not deductible for tax purposes. The amortizable intangible assets are being amortized over their estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise realized. The value and estimated useful lives of the intangibles are as follows:

	Value	Estimated useful life
Customer related intangibles	$ 382	1 to 10 years

The weighted average amortization period in respect of the acquired intangible assets is 8 years. The results of operations of the Triumph Companies and the fair value of the assets and liabilities are included in the Company s Consolidated Financial Statements with effect from August 17, 2012, the date of acquisition.

(f) Accounting Plaza B.V.

On April 25, 2012, the Company acquired 100% of the outstanding equity interest in Accounting Plaza B.V., a private limited liability company organized under the laws of the Netherlands (Accounting Plaza). Accounting Plaza is a provider of finance and accounting, human resources and PeopleSoft ERP services. This acquisition strengthens the Company s domain expertise in the retail industry and significantly expands its presence in Europe.

The Company acquired Accounting Plaza for cash consideration of $38,698 subject to adjustments based on the transfer of pension funds, underfunding in pension funds, and sellers warranty breaches including certain other transactions and transaction costs. There are no contingent consideration arrangements in connection with the acquisition.

Pursuant to the terms of the acquisition agreement with the sellers, the purchase consideration is comprised of the following:

Base consideration	$ 38,698
Adjustment for transfer of pension funds	
Adjustment for underfunding in pension funds	
Adjustment for sellers warranty breaches and certain other transactions	
Adjustment for transaction costs	
Purchase consideration	**$ 38,698**

During the period ended March 31, 2013, the Company recorded a measurement period adjustment which resulted in a $107 increase in the purchase consideration with a corresponding increase in goodwill. The measurement period adjustment did not have a significant impact on the Company s consolidated statements of income, balance sheets or cash flows in any period and, thus, were recorded during the period ended March 31, 2013.

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GENPACT LIMITED AND ITS SUBSIDIARIES

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(Unaudited)

(In thousands, except per share data and share count)

3. Business acquisitions and divestitures (Continued)

The acquisition has been accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. The assets and liabilities of Accounting Plaza were recorded at fair value as of the date of acquisition. The following table summarizes the allocation of the purchase consideration based on the fair value of assets acquired and liabilities assumed as of the date of acquisition including measurement period adjustments:

Purchase consideration	**$ 38,698**
Acquisition related costs included in selling, general and administrative expenses	434
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 1,664
Current assets	11,327
Tangible fixed assets	2,010
Intangible assets	13,138
Deferred tax asset/ (liability), net	(2,711)
Other non-current assets	971
Current liabilities	(9,062)
Other liabilities	(4,188)
Total identifiable net assets acquired	**$ 13,149**
Goodwill	25,549
Total	**$ 38,698**

The fair value of the current assets acquired included trade receivables with a fair value of $9,744. The gross amount due was $9,917, of which $173 was expected to be uncollectable.

Goodwill representing the excess of the purchase price over the fair value of the net assets (including deferred taxes) acquired is not deductible for tax purposes and has been allocated to the Europe reporting unit.

The amortizable intangible assets acquired are being amortized over their estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise realized. The value and estimated useful life of the intangible asset are as follows:

	Value	Estimated useful life
Customer related intangible	$ 13,138	3 10 years

The weighted average amortization period in respect of the acquired intangible assets is 7 years. The results of operations of Accounting Plaza and the fair value of the assets and liabilities have been included in the Company s Consolidated Financial Statements with effect from April 25, 2012, the date of acquisition.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data and share count)

3. Business acquisitions and divestitures (Continued)

B. Earn-out consideration and deferred consideration

The Company acquired Akritiv Technologies, Inc. (Akritiv), High Performance Partners, LLC (HPP), Empower Research, LLC (Empower), Atyati and the Triumph Companies on March 14, 2011, August 24, 2011, October 3, 2011, September 4, 2012 and August 17, 2012, respectively. The terms of the acquisition agreements for these business acquisitions provided for payment of additional earn-out consideration if certain future events or conditions are met. These earn-outs were recorded as liabilities based on their fair values as of the acquisition dates. The Company evaluates the fair value of earn-out consideration for the respective acquisitions for changes at each reporting period. As of September 30, 2013, the Company re-measured the fair value of such earn-out consideration with corresponding changes in the Consolidated Statements of Income as follows:

Decrease in fair value of earn-out consideration for Empower	$ (145)
Decrease in fair value of earn-out consideration for Triumph Companies	(2,150)
Decrease in fair value of earn-out consideration for Atyati	(1,794)
Decrease in fair value of earn-out consideration for HPP	(363)
	$ (4,452)

Further, during the period ended September 30, 2013, the Company paid earn-out consideration of $85, $3,274 and $1,499 for HPP, Akritiv and Empower, respectively, due to the fulfillment of certain earn-out conditions set forth in the acquisition agreements. Additionally, during the period ended September 30, 2013, the Company paid deferred consideration of $811 to the Empower sellers pursuant to the terms of the acquisition agreement.

C. Divestitures

(a) Hello Communications (Shanghai) Co., Ltd.

On February 22, 2013, the Company completed the divestiture of Hello Communications (Shanghai) Co., Ltd., a subsidiary engaged in the business of providing offshore tele-sales and other voice-based support services to telecom carriers and IT/telecom equipment manufacturers in Asia, for cash consideration of $998 resulting in loss of $447. The expected loss on the sale was recorded within other income (expense), net in the Consolidated Statements of Income for the year ended December 31, 2012 and was not materially different from the actual realized loss. The balance of cash and cash equivalents of Hello Communications (Shanghai) Co., Ltd. on the date of sale was $2,047, resulting in a net cash outflow of $1,049. The results of operations of Hello Communications (Shanghai) Co., Ltd. are not material to the Company s results of operations or financial condition and, therefore, are not reflected as discontinued operations for the periods presented.

(b) Clearbizz B.V.

On September 13, 2013, the Company completed the divestiture of Clearbizz, B.V., a subsidiary engaged in the business of providing electronic invoicing services in the Netherlands for cash consideration of $1 resulting in a loss of $1,184, which was recorded within other income (expense), net in the Consolidated Statements of Income. The results of operations of Clearbizz B.V. are not material to the Company s results of operations or financial condition and, therefore, are not reflected as discontinued operations for the periods presented.

(c) Gantthead.com, Inc.

During the period ended June 30, 2013, the Company decided to divest or discontinue Gantthead.com, Inc., a subsidiary engaged in the business of operating an online technology portal for project management. An amount of $2,336 has been reserved within other income (expense), net in the Consolidated Statements of Income representing an estimated loss on the expected divestiture of Gantthead.com, Inc. The results of operations of Gantthead.com, Inc. are not material to the Company s results of operations or financial condition and, therefore, are not reflected as discontinued operations for the periods presented.

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(In thousands, except per share data and share count)

4. Cash and cash equivalents

Cash and cash equivalents as of December 31, 2012 and September 30, 2013 comprise:

	As of December 31, 2012	As of September 30, 2013
Deposits with banks	$ 283,660	$ 245,909
Other cash and bank balances	175,568	235,589
Total	**$ 459,228**	**$ 481,498**

Cash and cash equivalents as of December 31, 2012 and September 30, 2013 include restricted cash balances of $628 and $874, respectively. Restrictions primarily consist of margin balances against bank guarantees and deposits for foreign currency advances on which the bank has created a lien.

5. Accounts receivable, net of reserve for doubtful receivables

The following table provides details of the reserve for doubtful receivables recorded by the Company:

	As of December 31, 2012	As of September 30, 2013
Opening balance as of January 1	$ 8,704	$ 9,073
Additions due to acquisitions	184	
Additions charged to cost and expense	3,878	8,919
Deductions	(3,693)	(3,473)
Closing balance	$ 9,073	$ 14,519

Accounts receivable were $461,062 and $491,579 and the reserves for doubtful receivables were $9,073 and $14,519, resulting in net accounts receivable balances of $451,989 and $477,060 as of December 31, 2012 and September 30, 2013, respectively. In addition, accounts receivable due after one year of $19,140 and $17,006 as of December 31, 2012 and September 30, 2013, respectively, are included under other assets in the Consolidated Balance Sheets.

Accounts receivable from related parties were $64 and $63, and the reserve for doubtful receivables was $35 and $0, resulting in net accounts receivable balances of $29 and $63, as of December 31, 2012 and September 30, 2013, respectively.

6. Fair Value Measurements

The Company measures certain financial assets and liabilities, including derivative instruments, at fair value on a recurring basis. The fair value measurements of these derivative instruments were determined using the following inputs as of December 31, 2012 and September 30, 2013:

	As of December 31, 2012 Fair Value Measurements at Reporting Date Using			
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
Assets				
Derivative Instruments (Note a)	$ 10,645	$	$ 10,645	$
Total	$ 10,645	$	$ 10,645	$
Liabilities				
Derivative Instruments (Note b)	$ 174,076	$	$ 174,076	$
Total	$ 174,076	$	$ 174,076	$

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Notes to the Consolidated Financial Statements

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(In thousands, except per share data and share count)

6. Fair Value Measurements (Continued)

		As of September 30, 2013 Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Derivative Instruments (Note a)	$ 6,768	$	$ 6,768	$
Total	$ 6,768	$	$ 6,768	$
Liabilities				
Derivative Instruments (Note b)	$ 277,459	$	$ 277,459	$
Total	$ 277,459	$	$ 277,459	$

(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.

The following table sets forth the reconciliation of loans held for sale that were outstanding as of September 30, 2012 but settled during the year ended December 31, 2012, which were measured at fair value using significant unobservable inputs:

	Three months ended September 30, 2012	Nine months ended September 30, 2012
Opening balance, net	$ 360	$ 469
Impact of fair value included in earnings		(108)
Settlements		(1)
Closing balance, net	$ 360	$ 360

The Company values its derivative instruments based on market observable inputs including both forward and spot prices for respective currencies. The quotes are taken from an independent market database.

7. 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 or other financial institutions, and the Company considers the risk of non-performance by the counterparties not to be material. The forward foreign exchange contracts mature between zero and fifty-one months and the forecasted transactions are expected to occur during the same period.

GENPACT LIMITED AND ITS SUBSIDIARIES

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(Unaudited)

(In thousands, except per share data and share count)

7. Derivative financial instruments (Continued)

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

	Notional principal amounts (Note a)		Balance sheet exposure asset (liability) (Note b)	
	As of December 31, 2012	As of September 30, 2013	As of December 31, 2012	As of September 30, 2013
Foreign exchange forward contracts denominated in:				
United States Dollars (sell) Indian Rupees (buy)	$ 1,706,000	$ 1,472,000	$ (160,432)	$ (269,392)
United States Dollars (sell) Mexican Peso (buy)	8,400	12,300	306	(422)
United States Dollars (sell) Philippines Peso (buy)	58,800	56,850	2,237	(1,723)
Euro (sell) United States Dollars (buy)	79,501	45,134	(420)	(1,836)
Euro (sell) Hungarian Forints (buy)	9,968	5,598	(10)	51
Euro (sell) Romanian Leu (buy)	64,870	63,689	(645)	1,433
Japanese Yen (sell) Chinese Renminbi (buy)	26,214	29,573	1,451	2,046
Pound Sterling (sell) United States Dollars (buy)	92,165	74,149	(2,494)	(2,791)
Australian Dollars (sell) United States Dollars (buy)	60,626	59,450	(3,424)	1,943
			$ (163,431)	$ (270,691)

(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.

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

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

	Cash flow hedges	Non-designated

	As of December 31, 2012	As of September 30, 2013	As of December 31, 2012	As of September 30, 2013
Assets				
Prepaid expenses and other current assets	$ 6,972	$ 4,790	$ 1,742	$ 318
Other assets	$ 1,931	$ 1,660	$	$
Liabilities				
Accrued expenses and other current liabilities	$ 60,229	$ 99,486	$ 1,417	$ 11,402
Other liabilities	$ 112,430	$ 166,571	$	$

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GENPACT LIMITED AND ITS SUBSIDIARIES

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(In thousands, except per share data and share count)

7. Derivative financial instruments (Continued)

Cash flow hedges

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

In connection with cash flow hedges, the gains (losses) recorded as a component of other comprehensive income (loss), or OCI, and the related tax affect are summarized below:

	Three months ended September 30, 2012			Three months ended September 30, 2013			Nine months ended September 30, 2012			Nine months ended September 30, 20		
	Before-Tax amount	Tax (Expense) or Benefit	Net of tax Amount	Before-Tax amount	Tax (Expense) or Benefit	Net of tax Amount	Before-Tax amount	Tax (Expense) or Benefit	Net of tax Amount	Before-Tax amount	Tax (Expense) or Benefit	Net of ta Amount
ening ance	$ (255,562)	$ 90,440	$ (165,122)	$ (207,373)	$ 73,239	$ (134,134)	$ (203,006)	$ 71,125	$ (131,881)	$ (163,756)	$ 59,070	$ (104,68
gains ses) assified statement ncome on npletion of ged nsactions	(15,813)	5,390	(10,423)	(23,185)	8,759	(14,426)	(22,654)	7,643	(15,011)	(44,070)	17,061	(27,00
anges in value of ective tion of standing ivatives,	99,280	(35,676)	63,604	(75,420)	27,031	(48,389)	39,883	(14,108)	25,775	(139,922)	49,502	(90,42
n (loss) on n flow ging ivatives,	115,093	(41,066)	74,027	(52,235)	18,272	(33,963)	62,537	(21,751)	40,786	(95,852)	32,441	(63,41
	$ (140,469)	**$ 49,374**	**$ (91,095)**	**$ (259,608)**	**$ 91,511**	**$ (168,097)**	**$ (140,469)**	**$ 49,374**	**$ (91,095)**	**$ (259,608)**	**$ 91,511**	**$ (168,09**

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7. Derivative financial instruments (Continued)

The gains or losses recognized in other comprehensive income (loss) and their effect on financial performance are 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 OCI into Statement of Income (Effective Portion)	Amount of Gain (Loss) reclassified from 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,			Three months ended September 30,		Nine months ended September 30,			Three months ended September 30,		Nine months ended September 30,	
	2012	2013		2012	2013	2012	2013		2012	2013	2012	2013
Forward foreign exchange contracts	$ 39,883	$ (139,922)	Revenue	$ (1,144)	$ 2,590	$ (3,587)	$ 5,957	Foreign exchange (gains) losses, net	$	$		
			Cost of revenue	(11,614)	(20,801)	(15,025)	(40,417)					
			Selling, general and administrative expenses	(3,055)	(4,974)	(4,042)	(9,610)					
	$ 39,883	**$ (139,922)**		**$ (15,813)**	**$ (23,185)**	**$ (22,654)**	**$ (44,070)**		**$**	**$**	**$**	**$**

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7. Derivative financial instruments (Continued)

Non designated Hedges

Derivatives not designated as hedging instruments	Location of (Gain) Loss recognized in Statement of Income on Derivatives	Amount of (Gain) Loss recognized in Statement of Income on Derivatives			
		Three months ended September 30,		Nine months ended September 30,	
		2012	2013	2012	2013
Forward foreign exchange contracts (Note a)	Foreign exchange (gains) losses, net	$ (10,588)	$ 11,359	$ (9,002)	$ 20,944
		$ (10,588)	**$ 11,359**	**$ (9,002)**	**$ 20,944**

(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.

8. Property, plant and equipment, net

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

	As of December 31, 2012	As of September 30, 2013
Property, plant and equipment, gross	$ 513,540	$ 486,112
Less: Accumulated depreciation and amortization	(313,178)	(317,738)
Property, plant and equipment, net	$ 200,362	$ 168,374

Depreciation expense on property, plant and equipment for the nine months ended September 30, 2012 and 2013 was $33,754, and $35,164, respectively, and for the three months ended September 30, 2012 and 2013 was $11,332 and $11,747, respectively. The amount of computer software amortization for the nine months ended September 30, 2012 and 2013 was $8,840, and $7,541, respectively, and for the three months ended September 30, 2012 and 2013 was $2,881 and $2,438, respectively.

The above depreciation and amortization expense includes the effect of reclassification of foreign exchange (gains) losses related to the effective portion of foreign currency derivative contracts amounting to $985 and $2,435 for the nine months ended September 30, 2012 and 2013, respectively, and $750 and $1,233 for the three months ended September 30, 2012 and 2013, respectively.

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9. Goodwill and intangible assets

The following table presents the changes in goodwill for the year ended December 31, 2012 and nine months ended September 30, 2013:

	As of December 31, 2012	As of September 30, 2013
Opening balance	$ 925,339	$ 956,064
Goodwill relating to acquisitions consummated during the period	43,265	37,918
Adjustment to preliminary purchase accounting for acquisitions	(3,213)	(362)
Effect of exchange rate fluctuations	(9,327)	(43,196)
Closing balance	$ 956,064	$ 950,424

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9. Goodwill and intangible assets (Continued)

The total amount of goodwill deductible for tax purposes is $6,779 and $39,260 as of December 31, 2012 and September 30, 2013, 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, 2012			As of September 30, 2013		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Customer-related intangible assets	$ 291,735	$ 206,987	$ 84,748	$ 286,716	$ 207,466	$ 79,250
Marketing-related intangible assets	40,386	18,801	21,585	40,654	20,026	20,628
Contract-related intangible assets	1,182	1,182		1,028	1,028	
Other intangible assets	7,069	1,015	6,054	9,075	2,021	7,054
	$ 340,372	$ 227,985	$ 112,387	$ 337,473	$ 230,541	$ 106,932

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, 2012 and 2013 were $17,094 and $17,603, respectively, and for the three months ended September 30, 2012 and 2013 were $6,014 and $5,867, 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 September 30, 2012 and 2013 was $55 and $0, respectively, and for the three months ended September 30, 2012 and 2013 was $17 and $0, respectively, and has been reported as a reduction of revenue.

10. Employee benefit plans

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

Defined benefit plans

In accordance with Indian law, the Company provides a defined benefit retirement plan (the Gratuity Plan) covering substantially all of its Indian employees. In addition, in accordance with Mexican law, the Company provides termination benefits to all of its Mexican employees. In addition, certain of the Company s subsidiaries in the Philippines and Japan have sponsored defined benefit retirement programs.

Net defined benefit plan costs for the three months and nine months ended September 30, 2012 and 2013 include the following components:

	Three months ended September 30,	Nine months ended September 30,

	2012	2013	2012	2013
Service costs	$ 693	$ 1,528	$ 2,667	$ 3,274
Interest costs	331	869	1,246	1,756
Amortization of actuarial loss	193	200	532	650
Expected return on plan assets	(187)	(298)	(599)	(727)
Net Gratuity Plan costs	$ 1,030	$ 2,299	$ 3,846	$ 4,953

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10. Employee benefit plans (Continued)

Defined contribution plans

During the three months and nine months ended September 30, 2012 and 2013, the Company contributed the following amounts to defined contribution plans in various jurisdictions:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2013	2012	2013
India	$ 3,450	$ 3,446	$ 10,367	$ 10,935
U.S.	696	620	2,462	2,561
U.K.	345	405	1,096	1,352
Hungary	6	6	52	18
China	3,092	3,899	8,670	10,781
Mexico	4	3	25	23
Morocco	33	20	122	71
South Africa	82	46	246	172
Hong Kong	10	4	27	15
Philippines	5	3	11	11
Singapore		2		8
Netherlands	411	345	840	1,427
Japan	107	611	320	1,577
Total	$ 8,241	$ 9,410	$ 24,238	$ 28,951

11. Stock-based compensation

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

From the date of adoption of the 2007 Omnibus Plan on July 13, 2007, the options forfeited, expired, terminated, or cancelled under any of the plans will be added to the number of shares otherwise available for grant under the 2007 Omnibus Plan. The 2007 Omnibus Plan was amended and restated on April 11, 2012 to increase the number of common shares authorized for issuance by 5,593,200 shares to 15,000,000 shares.

On August 30, 2012, the Company s Board of Directors declared a special cash dividend of $2.24 per share. The special cash dividend resulted in an adjustment to stock-based awards under both the 2007 Omnibus Plan and the 2005 Plan. Accordingly, effective September 24, 2012, the payment date of the special cash dividend, the number of common shares authorized for issuance under the 2007 Omnibus Plan was increased by 2,544,327 shares. The number of common shares authorized for issuance under the 2005 Plan was increased by 495,915 shares.

Further, as of December 31, 2012, the number of common shares authorized for issuance under the 2007 Omnibus Plan had been increased by 6,314,496 shares as a result of the termination, expiration or forfeiture of options granted under the Company s stock incentive plans other than the 2007 Omnibus Plan. In accordance with the anti-dilutive provisions of the 2005 Plan, 2006 Plan, 2007 Plan and 2007 Omnibus Plan, the Company adjusted both the exercise price and the number of stock-based awards outstanding as of the record date of the special cash dividend. The aggregate fair value, intrinsic value and the ratio of the exercise price to the market price were approximately equal immediately before and after the adjustments. Therefore, in accordance with the equity restructuring guidance under ASC 718, Compensation-Stock Compensation, no incremental compensation expense was recognized for the adjustment to the outstanding stock-based awards as a result of the special cash dividend.

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11. Stock-based compensation (Continued)

The stock-based compensation costs relating to the foregoing plans during the nine months ended September 30, 2012 and 2013 were $22,745 and $21,761 respectively, and for the three months ended September 30, 2012 and 2013, were $5,579 and $ 5,258 respectively. Stock-based compensation costs for the nine months and three months ended September 30, 2013 have been reduced by $1,670 due to a change in the probability of achievement of the performance conditions for outstanding performance units. These costs have been allocated to cost of revenue and selling, general, and administrative expenses.

The following table shows the significant assumptions used in connection with the determination of the fair value of options granted in the nine months ended September 30, 2013. No options were granted in the nine months ended September 30, 2012.

	Nine months ended September 30, 2013
Dividend Yield	0%
Expected life (in months)	84
Risk free rate of interest	1.55%
Volatility	39.39%

A summary of options activity during the nine months ended September 30, 2013 is set out below:

	Nine months ended September 30, 2013			
	Shares arising out of options	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Outstanding as of January 1, 2013	12,413,298	$ 9.29	4.2	
Granted	3,483,000	19.35		
Forfeited	(63,056)	10.47		
Expired	(67,978)	13.79		
Exercised	(3,784,851)	8.76		38,149
Outstanding as of September 30, 2013	11,980,413	$ 12.35	5.32	$ 80,652
Vested as of September 30, 2013 and expected to vest thereafter (a)	11,596,240	$ 12.07	5.32	$ 80,471
Vested and Exercisable as of September 30, 2013	7,547,192	$ 9.27	3.24	$ 72,524
Weighted average grant date fair value of grants during the period	$ 19.35			

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

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11. Stock-based compensation (Continued)

As of September 30, 2013, the total remaining unrecognized stock-based compensation costs for options expected to vest amounted to $25,728, which will be recognized over the weighted average remaining requisite vesting period of 4.0 years.

Restricted Share Units

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

A summary of RSUs granted during the nine months ended September 30, 2013 is set out below:

	Nine months ended September 30, 2013		
	Number of Restricted Share Units	Weighted Average Grant Date Fair Value	
Outstanding as of January 1, 2013	1,688,402	$	13.74
Granted	91,623		19.52
Vested*	(294,451)		14.49
Forfeited	(190,665)		13.62
Outstanding as of September 30, 2013	1,294,909	$	14.00
Expected to vest (a)	1,165,351		

(a) RSUs expected to vest reflect an estimated forfeiture rate.
* Vested RSUs have been net settled upon vesting by issuing 188,966 shares (net of minimum statutory withholding taxes).
During the year ended December 31, 2011, 102,000 RSUs vested, the shares in respect of which were issued in January 2013 (100,800 shares, net of minimum statutory withholding taxes). Shares in respect of an additional 13,719 RSUs reflecting an adjustment to 102,000 vested RSUs on account of the special cash dividend were issued in January 2013 (13,557, net of minimum statutory withholding taxes).

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11. Stock-based compensation (Continued)

As of December 31, 2012, 4,000 RSUs vested, the shares in respect of which were issued in April 2013 (1,819, net of minimum statutory withholding taxes). Shares in respect of an additional 533 RSUs reflecting an adjustment to 4,000 vested RSUs on account of the special cash dividend were issued in April 2013 (240, net of minimum statutory withholding taxes).

44,286 RSUs vested as of December 31, 2012, the shares in respect of which will be issued on December 31, 2013, after withholding shares to the extent of the minimum statutory withholding taxes.

As of September 30, 2013, the total remaining unrecognized stock-based compensation costs related to RSUs amounted to $12,427, which will be recognized over the weighted average remaining requisite vesting period of 1.9 years.

Performance Units

The Company also grants stock-based awards in the form of Performance Units, or PUs, under the 2007 Omnibus Plan. The Company granted PUs, each of which represents the right to receive one common share based on the Company s performance against specified targets. PUs granted to date have vesting schedules of six months to three years. The fair value of each PU is the market price of one common share of the Company on the date of grant, and assumes that performance targets will be achieved. The PUs granted under the plan are subject to cliff or graded vesting. For awards with cliff vesting, the compensation expense is recognized on a straight-line basis over the vesting terms. For awards with graded vesting, the compensation expense is recognized over the vesting term of each separately vesting portion. Over the performance period, the number of shares that will be issued will be adjusted upward or downward based upon the probability of achievement of the performance targets. The ultimate number of shares issued and the related compensation cost recognized as an expense will be based on a comparison of the final performance metrics to the specified targets.

A summary of PUs activity during the nine months ended September 30, 2013 is set out below:

	Nine months ended September 30, 2013		
	Number of Performance Units	Weighted Average Grant Date Fair Value	Maximum Shares Eligible to Receive
Outstanding as of January 1, 2013	3,041,511	$ 13.26	4,402,597
Granted	2,025,090	18.57	3,694,635
Vested			
Forfeited	(200,654)	15.13	(256,064)
Addition due to achievement of higher than target performance goals*	297,911	17.50	
Reduction due to achievement of lower than maximum performance goals**			(373,702)
Outstanding as of September 30, 2013	5,163,858	$ 15.51	7,467,466

Expected to vest (a)	2,542,867

(a) PUs expected to vest are based on the probable achievement of the performance targets after considering an estimated forfeiture rate

* Represents the additional award of 22.2% of the target shares on account of the achievement of higher than target performance for the PUs granted in March 2012.

** Represents a 27.8% reduction in the maximum shares eligible to vest on account of the certification of the performance goals for the PUs granted in 2012.

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11. Stock-based compensation (Continued)

For the PUs granted in August 2010, vesting for the year ended December 31, 2011 (including the PUs issued as an adjustment on account of the special cash dividend) has taken place at 128.9% of the target shares (243,781 vested shares) after the compensation committee s certification of the achievement of the performance goals. Shares in respect of these PUs were issued in January 2013 (156,511, net of minimum statutory withholding taxes).

The PUs granted in March 2010 (including the PUs issued as an adjustment on account of the special cash dividend) vested at 90.9% of the target shares (503,969 shares) after the compensation committee s certification of the performance goals achieved for the performance period based on the Company s audited consolidated financial statements. The shares in respect of these PUs were issued in March 2013 (334,922) and April 2013 (4,679), net of minimum statutory withholding taxes.

For the PUs granted in August 2010 vesting for the year ended December 31, 2012 has taken place at 122.2% of the target shares (231,029 vested shares) based on the compensation committee s certification of achievement of the performance goals for the performance period based on the Company s audited consolidated financial statements. The shares in respect of these PUs will be issued on December 31, 2013, net of minimum statutory withholding taxes.

As of September 30, 2013, the total remaining unrecognized stock-based compensation costs related to PUs amounted to $9,429, which will be recognized over the weighted average remaining requisite vesting period of 1.1 years.

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

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

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

	Original Performance Target		Modified Performance Target	
Performance Level	Revenue Growth	EBITDA Growth	Revenue Growth	Adjusted Income from Operation growth

Outstanding	20.0%	20.0%	17.0%	16.0%
Target	15.0%	15.0%	12.5%	12.5%
Threshold	10.0%	10.0%	8.0%	7.0%

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11. Stock-based compensation (Continued)

As of the date of the above modifications, an incremental compensation cost of $4,109 was determined and was to be recognized over a period of 21.5 months, starting from March 2011 to December 31, 2012.

Under the 2007 Omnibus Plan, the definition of change of control includes the acquisition by any person, corporation or other entity or group other than GA, OH, GE or any of their affiliates of 25% or more of the voting securities of the Company. The purchase by Bain Capital of Company shares from GA and OH would have constituted a change of control under the 2007 Omnibus Plan resulting in (1) accelerated vesting of the PUs granted in August 2010 to the former CEO (who since assumed the role of Non-Executive Vice-Chairman) and the PUs granted to the Company s Chief Executive Officer in June 2011 and March 2012, (2) double-trigger vesting of the outstanding PUs granted in March 2010 and March 2011 based on an abbreviated performance period ending with the close of the Company s fiscal quarter coincident with or immediately preceding the effective date of the Change of Control in the event of a termination without cause in the twenty-four months following a change of control and (3) double-trigger vesting of the outstanding PUs granted in March 2012 based on target performance in the event of a termination without cause in the twenty-four months following a change of control. However, because the Board of Directors determined that the Bain transaction was not the type of transaction intended to constitute a change of control, the 2007 Omnibus Plan was amended to provide that the contemplated transaction among Bain Capital, GA and OH would not constitute a change of control thereunder. In addition, the CEO and Non-Executive Vice-Chairman waived any accelerated vesting of their PUs and the affected employees consented to the amendment of the change of control definition. As a result of the foregoing, all PUs will continue to vest in accordance with their original terms.

The amendment to the 2007 Omnibus Plan was a modification to the PUs effective as of October 25, 2012, as a result of which 123 employees were affected and an incremental compensation cost of $5,500 was determined and will be recognized over a weighted average period of 1.85 years. The incremental compensation cost due to modification was a result of considering the original performance period for the determination of expected vesting compared to the abbreviated performance period for 2010 and 2011 grants and vesting at target for 2012 performance grants.

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 allows eligible employees to purchase the Company s common shares through payroll deduction at 90% of the fair value per share on the last business day of each purchase interval. 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, 2012 and 2013, the number of common shares issued under the ESPP was 63,106 and 81,040, respectively.

The ESPP is considered compensatory under the FASB guidance on Compensation-Stock Compensation.

The compensation expense for the ESPP is recognized in accordance with the FASB guidance on Compensation-Stock Compensation. The compensation expense for the ESPP during the nine months ended September 30, 2012 and 2013 was, $111 and $170, respectively, and for the three months ended September 30, 2012 and 2013, was $34 and $54, respectively, and has been allocated to cost of revenue and selling, general, and administrative expenses.

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12. Earnings per share

The Company calculates earnings per share in accordance with FASB guidance on Earnings per share. Basic and diluted earnings per common share give effect to the change in the number of common shares of the Company. The calculation of earnings per common share was determined 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 the ESPP and performance units, have been included in the computation of diluted net earnings per share and the weighted average shares outstanding, except where the result would be anti-dilutive.

The number of stock options outstanding but not included in the computation of diluted earnings per common share because the effect was anti-dilutive is 4,366,422 and 2,327,000 for the nine months ended September 30, 2012 and 2013, respectively, and is 285,000 and 3,483,000 for the three months ended September 30, 2012 and 2013, respectively.

	Three months ended September 30, 2012	Three months ended September 30, 2013	Nine months ended September 30, 2012	Nine months ended September 30, 2013
Net income available to Genpact Limited common shareholders	$ 25,175	$ 70,262	$ 124,815	$ 180,875
Weighted average number of common shares used in computing basic earnings per common share	223,876,035	230,057,508	223,289,507	228,840,746
Dilutive effect of stock-based awards	6,319,799	6,279,416	5,226,884	6,254,914
Weighted average number of common shares used in computing dilutive earnings per common share	230,195,834	236,336,924	228,516,391	235,095,660
Earnings per common share attributable to Genpact Limited common shareholders				
Basic	$ 0.11	$ 0.31	$ 0.56	$ 0.79
Diluted	$ 0.11	$ 0.30	$ 0.55	$ 0.77

13. Short-term borrowings

The Company has the following borrowing facilities:

(a) Fund-based and non-fund-based credit facilities with banks, which are available for operational requirements in the form of overdrafts, letters of credit, guarantees and short-term loans. As of December 31, 2012 and September 30, 2013, the limits available were $18,489 and $16,393, respectively out of which $5,942 and $6,686 was utilized, representing non-funded drawdown.

(b) A fund-based and non fund-based revolving credit facility of $260,000 acquired in May 2011 was fully prepaid and terminated on August 30, 2012 as described in note 14 below.

(c) A fund-based and non-fund-based revolving credit facility of $250,000 initially acquired in August 2012 was amended in June 2013 as described in note 14 below. A part of this amount was initially used for funding the special cash dividend paid in September 2012 and for the acquisition of Jawood in February 2013. As of December 31, 2012 and September 30, 2013, a total of $87,439 and $4,397, respectively, was utilized representing a funded drawdown of $80,000 and $0, respectively, and a non-funded drawdown of $7,439 and $4,397, respectively. This facility expires in August 2017 and the funded drawdown bears interest at LIBOR plus a margin of 2.50% as of September 30, 2013 compared to a margin of 3.25% as of December 31, 2012. The unutilized amount on the facility bears a commitment fee of 0.50%. Indebtedness under these facilities is secured by certain assets and the credit agreement contains certain covenants, including a maximum leverage covenant that becomes effective only if the revolving facility is drawn for $50,000 or more. For the nine months ended September 30, 2013, the Company is in compliance with all of the financial covenants.

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14. Long-term debt

In May 2011, the Company obtained credit facilities aggregating $380,000 from a consortium of financial institutions to finance in part the acquisition of Headstrong and for general corporate purposes of the Company and its subsidiaries, including working capital requirements. The credit agreement provided for a $120,000 term loan and a $260,000 revolving credit facility. On August 30, 2012, the Company fully prepaid and terminated the $380,000 credit facility.

In August 2012, the Company obtained credit facilities aggregating $925,000 from a consortium of financial institutions to (i) finance the repayment of the balance outstanding under the previous existing credit facility of $380,000, (ii) fund a portion of the special cash dividend, and (iii) for general corporate purposes of the Company and its subsidiaries, including working capital requirements. The credit agreement provided for a term loan of $675,000 and a revolving credit facility of $250,000.

In June 2013, the Company amended this credit facility. Under the amended facility, the applicable margin on the term loan and the revolving credit facility has been reduced from 3.25% p.a. to 2.75% p.a. and 2.50% p.a., respectively. In addition, the LIBOR floor on the term loan was reduced from 1% under the earlier facility to 0.75% under the amended facility. As of the amendment date, the gross outstanding term loan amounted to $671,625. The amendment did not result in a substantial modification of $553,589 of the outstanding term loan under the previous credit facility. Further, as a result of the amendment, the Company extinguished the outstanding term loan under the previous credit facility amounting to $118,036 and obtained additional funding amounting to $121,410, increasing the total term loan outstanding to $675,000. As a result, the Company expensed $3,103 representing partial acceleration of the amortization of the existing unamortized debt issuance costs and an additional fee paid to lenders in respect of the extinguished amount. The overall borrowing capacity under the revolving facility did not change. The amendment of the revolving facility resulted in accelerated amortization of $54 relating to the existing unamortized debt issuance cost. The remaining unamortized costs and an additional third party fee paid in connection with the amendment of the term loan and revolving facility will be amortized over the term of the term loan and revolving facility ending on August 30, 2019 and August 30, 2017, respectively.

As of December 31, 2012 and September 30, 2013, the outstanding term loan, net of a debt amortization expense of $11,452 and $14,392, was $661,861 and $658,920 respectively. As of December 31, 2012, the term loan bears interest at LIBOR (LIBOR floor of 1%) plus an applicable margin of 3.25% p.a. As of September 30, 2013, the term loan bears interest at LIBOR (LIBOR floor of 0.75%) plus an applicable margin of 2.75% p.a. Indebtedness under the loan agreement is secured by certain assets. The amount outstanding on the term loan as of September 30, 2013 will be repaid through quarterly payments of 0.25% of the principal amount of $675,000, and the balance will be repaid upon the maturity of the term loan on August 30, 2019.

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

Year Ended	Amount
2013	$ 1,056
2014	$ 4,263
2015	$ 4,288
2016	$ 4,306
2017	$ 4,338
2018	$ 4,363
2019	$ 636,306
	$ 658,920

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GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data and share count)

15. Cost of revenue

Cost of revenue consists of the following:

	Three months ended September 30,		Nine months ended September 30,
	2012	2013	2012