

Genpact LTD
Form 10-Q
November 14, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

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: 333-142875

GENPACT LIMITED

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

541990
(Primary Standard Industrial
Classification Code Number)

98-0533350
(I.R.S. Employer
Identification Number)

Canon s Court

22 Victoria Street

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Hamilton HM

Bermuda

(441) 295-2244

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares of the registrant's common shares, par value \$0.01 per share, outstanding as of November 12, 2007 was 211,785,480.

TABLE OF CONTENTS

<u>Part I.</u>	<u>Financial Information</u>
<u>Item 1.</u>	<u>Financial Statements</u> <u>Consolidated Balance Sheets as of December 31, 2006 and September 30, 2007 (Unaudited)</u> <u>Consolidated Statements of Income (Unaudited) for the three and nine months ended September 30, 2006 and 2007</u> <u>Consolidated Statements of Stockholders' Equity and Comprehensive Income (Unaudited) for the nine months ended September 30, 2007</u> <u>Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2006 and 2007</u> <u>Notes to Consolidated Financial Statements (Unaudited)</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>
<u>Part II.</u>	<u>Other Information</u>
<u>Item 1.</u>	<u>Legal Proceedings</u>
<u>Item 1A.</u>	<u>Risk Factors</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
<u>Item 3.</u>	<u>Defaults upon Senior Securities</u>
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>
<u>Item 5.</u>	<u>Other Information</u>
<u>Item 6.</u>	<u>Exhibits</u>
	<u>Signatures</u>

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GENPACT LIMITED

Consolidated Balance Sheets

(Unaudited)

(In thousands of U.S. Dollars, except share and per share data)

	As of December 31, 2006	As of September 30, 2007
Assets		
<i>Current assets</i>		
Cash and cash equivalents	\$ 35,430	\$ 252,828
Accounts receivable, net	43,854	99,321
Accounts receivable from a significant shareholder, net	97,397	95,243
Short term deposits with a significant shareholder	1,010	22,074
Deferred income taxes	1,144	1,157
Due from a significant shareholder	10,236	5,397
Prepaid expenses and other current assets	53,829	144,703
Total current assets	242,900	620,723
Property, plant and equipment, net	157,976	177,973
Deferred income taxes	1,549	452
Investment in equity affiliate		323
Customer-related intangible assets, net	119,680	105,283
Other intangible assets, net	11,908	10,738
Goodwill	493,452	573,144
Other assets	53,827	161,842
Total assets	\$ 1,081,292	\$ 1,650,478

See accompanying notes to the Consolidated Financial Statements.

GENPACT LIMITED

Consolidated Balance Sheets

(Unaudited)

(In thousands of U.S. Dollars, except share and per share data)

	As of December 31, 2006	As of September 30, 2007
Liabilities and stockholders equity		
<i>Current liabilities</i>		
Short-term borrowings	\$ 83,000	\$ 500
Current portion of long-term debt	19,383	19,436
Current portion of long-term debt from a significant shareholder	1,131	1,483
Current portion of capital lease obligations	64	45
Current portion of capital lease obligations payable to a significant shareholder	1,686	1,833
Accounts payable	9,230	15,332
Income taxes payable	1,617	14,663
Deferred income taxes	1,858	13,428
Due to a significant shareholder	8,928	10,561
Accrued expenses and other current liabilities	136,949	170,939
Total current liabilities	263,846	248,220
Long-term debt, less current portion	118,657	104,074
Long-term debt from a significant shareholder, less current portion	3,865	3,962
Capital lease obligations, less current portion		97
Capital lease obligations payable to a significant shareholder, less current portion	3,067	2,943
Deferred income taxes	20,481	37,634
Due to a significant shareholder	7,019	8,535
Other liabilities	39,662	57,474
Total liabilities	456,597	462,939
Minority interest		4,209
Stockholders equity		
2% Cumulative Series A convertible preferred stock, 3,077,868 and nil authorized, issued and outstanding, and \$208,577 and \$nil aggregate liquidation value as of December 31, 2006 and September 30, 2007, respectively	95,414	
5% Cumulative Series B convertible preferred stock, 3,017,868 and nil authorized, issued and outstanding, and \$216,502 and \$nil aggregate liquidation value as of December 31, 2006 and September 30, 2007, respectively	93,554	
Preferred stock, \$0.01 par value, 250,000,000 authorized, nil issued and outstanding as of September 30, 2007		
Common shares, \$0.01 par value, 71,390,738 and 500,000,000 authorized and 71,390,738 and 211,775,892 shares issued and outstanding as of December 31, 2006, and September 30, 2007, respectively (refer to Note 1)	714	2,117
Additional paid-in capital	494,325	994,128
Retained earnings (deficit)	5,978	(4,692)
Accumulated other comprehensive income (loss)	(15,295)	191,777
Treasury stock, 3,628,130 common shares and 59,000 2% Cumulative Series A convertible preferred stock and nil common	(49,995)	

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shares and nil 2% Cumulative Series A convertible preferred stock
as of December 31, 2006 and September 30, 2007, respectively
(refer to Note 1)

Total stockholders equity		624,695		1,183,330
Commitments and contingencies				
Total liabilities, minority interest and stockholders equity	\$	1,081,292	\$	1,650,478

See accompanying notes to the Consolidated Financial Statements.

GENPACT LIMITED

Consolidated Statements of Income

(Unaudited)

(In thousands of U.S. Dollars, except share and per share data)

	Three months ended		Nine months ended	
	September 30, 2006	September 30, 2007	September 30, 2006	September 30, 2007
Net revenues				
Net revenues from services - significant shareholder	\$ 111,047	\$ 122,862	\$ 330,358	\$ 367,852
Net revenues from services - others	50,853	91,590	104,395	221,691
Other revenues	486	110	486	1,492
Total net revenues	162,386	214,562	435,239	591,035
Cost of revenue				
Services	93,148	132,991	256,887	370,356
Others	363	99	363	1,133
Total cost of revenue	93,511	133,090	257,250	371,489
Gross profit	68,875	81,472	177,989	219,546
<i>Operating expenses:</i>				
Selling, general and administrative expenses	40,813	62,849	113,839	167,002
Amortization of acquired intangible assets	10,200	9,358	31,917	27,987
Foreign exchange (gains) losses, net	4,235	(15,476)	8,756	(28,613)
Other operating income	(1,373)	(810)	(3,126)	(2,533)
Income from operations	\$ 15,000	\$ 25,551	\$ 26,603	\$ 55,703
Other income (expense), net	(4,230)	(619)	(7,415)	(7,697)
Income before share of equity in loss of affiliate, minority interest and income taxes	10,770	24,932	19,188	48,006
Equity in loss of affiliate		61		141
Minority interest		2,062		5,754
Income taxes expense (benefit)	(2,035)	6,486	(5,707)	16,849
Net Income	\$ 12,805	\$ 16,323	\$ 24,895	\$ 25,262
Net earnings / (loss) per common share -				
Basic	\$ (0.02)	\$ 0.07	\$ (0.10)	\$ (0.13)
Diluted	\$ (0.02)	\$ 0.07	\$ (0.10)	\$ (0.13)
Weighted average number of common shares used in computing earnings (loss) per common share -				
Basic	71,274,600	186,839,059	71,274,600	108,173,821
Diluted	71,274,600	195,698,132	71,274,600	108,173,821
Pro forma net earnings per common share -				
Basic		\$ 0.08		\$ 0.13
Diluted		\$ 0.08		\$ 0.12

Weighted average number of pro forma common shares used in computing net earnings per common

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share -		
Basic	204,071,513	193,458,458
Diluted	212,930,586	202,584,315

See accompanying notes to the Consolidated Financial Statements.

GENPACT LIMITED

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)

(Unaudited)

(In thousands of U.S. Dollars, except share and per share data)

	2% Cumulative Series A Convertible Preferred stock		5% Cumulative Series B Convertible Preferred stock		Common stock			Accumulated Other Comprehensive Income (loss)	Treasury Stock		Total Stockholders' Equity	Comprehensive Income (Loss)		
	Shares (Nos)	Amounts Paid-in Capital	Shares (Nos)	Amounts Paid-in Capital	Shares (Nos)	Amounts Paid-in Capital	Additional Paid-in Capital		Common shares (Nos)	Series A Preferred stock (Nos)			Amounts	
Balance as of January 1, 2007	3,077,868	\$ 95,414	3,017,868	\$ 93,554	71,390,738	\$ 714	\$ 494,325	\$ 5,978	\$ (15,295)	(3,628,130)	(59,000)	\$ (49,995)	\$ 624,695	
Issuance of common shares on exercise of options					433,645	4	1,597							1,601
Treasury Stock issued in business combination							8,045			1,442,315		15,220		23,265
Cancellation of shares held in treasury	(59,000)	(1,829)			(2,185,815)	(22)	(32,924)			2,185,815	59,000	34,775		
Repurchase and retirement of common shares from employees					(106,007)	(1)	(1,709)							(1,710)
Repurchase and retirement of Cumulative Series A convertible preferred stock from employees	(522)	(16)					(126)							(142)
Repurchase and retirement of Cumulative Series B convertible preferred stock from employees			(522)	(16)			(126)							(142)
Accrual of dividend on preferred stock							35,932	(35,932)						
Other issuance of common shares					547		9							9
Effect of 2007 Reorganization	(3,018,346)	(93,569)	(3,017,346)	(93,538)	119,301,607	1,193	185,914							
Issuance of common shares through initial					22,941,177	229	294,282							294,511

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public offering, net								
Stock-based compensation expense			8,909					8,909
Comprehensive income:								
Net income			25,262					25,262 \$ 2
Other comprehensive income:								
Unrealized gain on cash flow hedging derivatives, net					125,556			125,556 12
Currency translation adjustments					81,516			81,516 8
Comprehensive income (loss)								\$ 23
Balance as of September 30, 2007	\$	\$	211,775,892	\$ 2,117	\$ 994,128	\$ (4,692)	\$ 191,777	\$ 1,183,330

Genpact's authorized capital stock at September 30, 2007 consisted of 500 million shares of common stock, par value \$0.01 per share, and 250 million shares of preferred stock, par value \$0.01 per share. Of the preferred stock, no shares are issued and outstanding.

See accompanying notes to the Consolidated Financial Statements.

GENPACT LIMITED

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands of U.S. Dollars)

	Nine months ended	
	September 30, 2006	September 30, 2007
Operating activities		
Net income	\$ 24,895	\$ 25,262
<i>Adjustments to reconcile net income to net cash provided by (used for) operating activities:</i>		
Depreciation and amortization	24,273	34,948
Amortization of debt issue costs	3,005	658
Amortization of acquired intangible assets	32,938	28,758
Loss (gain) on sale of property, plant and equipment, net	75	(28)
Provision for doubtful debts	1,905	2,945
Provision for loan held for sale		1,551
Unrealized (gain) loss on revaluation of foreign currency asset/liability	(517)	694
Equity in loss of affiliate		141
Minority interest		5,754
Stock-based compensation expense	3,584	8,909
Deferred taxes	(8,514)	(3,264)
<i>Change in operating assets and liabilities:</i>		
Decrease (increase) in accounts receivable	(25,608)	(43,497)
Decrease (increase) in other assets	(16,084)	(9,064)
(Decrease) increase in accounts payable	1,385	(357)
(Decrease) increase in accrued expenses and other current liabilities	(23,879)	8,761
(Decrease) increase in income taxes payable	(2,821)	12,383
(Decrease) increase in other liabilities	11,806	5,672
Net cash provided by operating activities	\$ 26,443	\$ 80,226
Investing activities		
Purchase of property, plant and equipment	(60,581)	(42,833)
Proceeds from sale of property, plant and equipment	1,668	2,923
Investment in affiliates		(455)
Short term deposits placed	(123,093)	(137,790)
Redemption of short term deposits	157,845	117,321
Payment for business acquisition, net of cash acquired	(9,561)	(14,771)
Net cash used in investing activities	\$ (33,722)	\$ (75,605)
Financing activities		
Repayment of capital lease obligations	(1,527)	(2,233)
Proceeds from long-term debt	115,072	1,525
Repayment of long-term debt	(138,174)	(16,076)
Short-term borrowings, net	33,434	(82,500)
Repurchase of common shares and preferred shares		(1,994)
Direct cost incurred in relation to initial public offering		(6,822)
Proceeds from issuance of common shares		1,601
Proceeds from issuance of common shares from initial public offering		303,512
Payment to minority shareholders		(3,436)
Net cash provided by financing activities	\$ 8,805	\$ 193,577
Effect of exchange rate changes	(1,416)	19,200

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Net increase in cash and cash equivalents		1,526		198,198
Cash and cash equivalents at the beginning of the period		44,698		35,430
Cash and equivalents at the end of the period	\$	44,808	\$	252,828
Supplementary information				
Cash paid during the period for interest		12,317		11,169
Cash paid during the period for income taxes		5,739		10,659
Property, plant and equipment acquired under capital lease obligation		2,987		1,806
Goodwill acquired during the period		14,831		35,610
Intangibles acquired during the period		811		5,494

See accompanying notes to the Consolidated Financial Statements.

GENPACT LIMITED

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands of U.S. Dollars, except share and per share data)

1. Organization and description of business

Genpact Limited (the Company) was incorporated in Bermuda on March 29, 2007 as a subsidiary of Genpact Global Holdings SICAR S.à.r.l. (GGH) with the intent of making it the new holding Company of our business. On July 13, 2007, the Company effectuated a transaction that resulted in the shareholders of GGH exchanging their common shares in GGH for common shares of the Company, and the shareholders of Genpact Global (Lux) S.à.r.l. (GGL) exchanging their preferred and common shares in GGL for common shares of the Company. As a result, Genpact Limited became the owner of all the capital stock of GGL and GGH. This transaction and other related transactions commencing on this date are referred to as the 2007 Reorganization.

Pursuant to the above transaction, the ownership interests of the shareholders of GGH, including the minority shareholders, were exchanged for shares of Genpact Limited irrespective of whether such shareholders owned equity directly in GGH or indirectly through GGL. Such shareholders acquired the same proportionate economic interest in Genpact Limited as they had in GGH immediately prior to the 2007 Reorganization. Accordingly, the interest of the existing shareholders in GGH continued to be same in the Company before and after the 2007 Reorganization.

The above legal reorganization of GGH and GGL into the Company has been accounted for as a transfer of net assets or exchange of equity interests between entities under common control. Accordingly, the assets and liabilities transferred are recorded at their carrying value in a manner similar to the as-if pooling of interest accounting. Since the accounts of these entities were stated at their historical amounts for all periods presented, no adjustments were required for purposes of restating the financial statements on a consolidated basis for the current and the prior periods.

As part of the 2007 Reorganization, GGH became a Bermuda company and its name changed to Genpact Global Holding (Bermuda) Limited. In addition, GGL also became a Bermuda company, in accordance with the laws of Bermuda and Luxembourg and its name changed to Genpact Global (Bermuda) Limited. We use the terms Genpact, Company, we and us to refer to both GGH and its subsidiaries prior to July 13, 2007 and Genpact Limited and its subsidiaries after such date.

The effect of the exchange of common shares of the Company in the 2007 Reorganization with the common shares of GGH has been retrospectively applied to stockholders' equity and per share amounts in the consolidated financial statements. This retrospective application had no material effect on other amounts. The effect of the exchange of preferred shares in the 2007 Reorganization has been applied to stockholders' equity and per share amounts in the consolidated financial statements from the effective date of the 2007 Reorganization.

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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 reorganized these operations by placing them all under GGH, and subsequently sold an indirect 60% interest in that entity.

On August 1, 2007, the Company commenced an initial public offering of its common shares, pursuant to which the Company and certain of its existing shareholders (referred to as the Selling Shareholders) each sold 17,647,059 common shares at a price of \$14 per share. The offering resulted in gross proceeds of \$494,118 and net proceeds to the Company and the Selling Shareholders of approximately \$233,470, each after deducting underwriting discounts and commissions. Additionally, the Company incurred offering related expenses of approximately \$9,000. On August 14, 2007, the underwriters exercised their option to purchase 5,294,118 additional common shares from the Company at the initial offering price of \$14.00 per share to cover over-allotments, resulting in additional gross proceeds of \$74,118 and net proceeds of approximately \$70,041 to the Company, after deducting underwriting discounts and commissions.

The Company combines its process expertise, information technology expertise and analytical capabilities, together with operational insight derived from its experience in diverse industries, to provide a wide range of services using its global delivery platform. The Company s service offerings include finance and accounting, collections and customer service, insurance services, supply chain and procurement, analytics, enterprise application services and IT infrastructure services.

On March 1, 2007, the Company acquired E-Transparent B.V. and certain related entities, which are controlling partners in a partnership known as ICE. Accordingly, from the date of acquisition the financial statements of ICE have been reflected in the Company s financial statements.

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 generally accepted accounting principles for interim financial reporting and the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include certain information and notes disclosures required by generally accepted accounting principles for annual financial reporting and should be read in conjunction with the consolidated financial statements and notes thereto included in the annual Consolidated Financial Statements of Genpact for the fiscal year ended December 31, 2006 included in our Prospectus filed with the SEC on August 1, 2007.

The unaudited interim financial statements reflect all adjustments (of a normal and recurring nature) which 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 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. All material inter-company accounts and transactions within the Company are eliminated in these consolidated financial statements.

b) Use of estimates

The preparation of unaudited interim consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the unaudited interim consolidated financial statements and accompanying notes. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, intangibles and goodwill; valuation allowance for receivables and deferred tax assets; valuation of derivative instruments; valuation of share-based compensation and assets and obligations related to employee benefits. Management believes that the estimates used in the preparation of the unaudited interim consolidated financial statements are prudent and reasonable. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

c) Revenue recognition

The Company derives its revenue primarily from business process services, which are provided on both time-and-materials and fixed-price basis. The Company recognizes revenue from services under time-and-materials contracts when persuasive evidence of an arrangement exists; the sales price is fixed or determinable; and collectability is reasonably assured. Such revenues are recognized as the services are provided. The Company's fixed-price contracts include contracts for application maintenance and support services. Revenues on these contracts are recognized ratably over the term of the agreement. The Company accrues for revenue and receivables for the services rendered between the last billing date and the balance sheet date.

Revenue with respect to fixed-price contracts for development of software is recognized on a percentage of completion method. Guidance has been drawn from paragraph 95 of American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, Software Revenue Recognition, to account for revenue from fixed price arrangements for software development and related services in conformity with SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. The input (effort expended) method has been used to measure progress towards completion as there is a direct relationship between input and productivity. Provisions for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates.

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

Revenues are reported net of value-added tax, business tax and applicable discounts and allowances.

Reimbursements of out of pocket expenses received from customers have been included as part of revenues in accordance with EITF 01-14, Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred.

d) Cash and cash equivalents

Cash and cash equivalents consist of cash balances and all highly liquid investments purchased with an original maturity of three months or less.

e) Property, plant and equipment, net

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Expenditures for replacements and improvements are capitalized whereas the cost of maintenance and repairs are charged to earnings as incurred. The Company depreciates and amortizes all property, plant and equipment using the straight-line method over the following estimated economic useful lives of the assets:

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	Years
Buildings	40
Furniture and fixtures	4
Computer equipment and servers	3-4
Plant, machinery and equipment	4
Computer software	4
Leasehold improvements	Lesser of lease period or 6 years
Vehicles	3-4

The cost of software purchased for internal use is accounted for under AICPA SOP 98-1, Accounting for the Cost of Computer Software Developed or Obtained for Internal Use.

f) Research and development expense

Development costs incurred for software to be sold are expensed as incurred as research and development costs until technological feasibility has been established for the product. Technological feasibility is established upon completion of a detailed design program or, in its absence, completion of a working model. Thereafter, all software production costs are capitalized and amortized over their useful lives and reported at the lower of unamortized cost and net realizable value.

g) Business combinations, goodwill and other intangible assets

Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 specifies criteria as to intangible assets acquired in a business combination that must be recognized and reported separately from goodwill. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, all assets and liabilities of the acquired businesses including goodwill are assigned to reporting units.

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

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

Years

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Customer-related intangible assets	3-10 years
Marketing-related intangible assets	1-5 years
Contract-related intangible assets	1 year

The intangible assets are amortized using a discounted cash flow method in each period which reflects the pattern in which their economic benefits are consumed or otherwise used up.

h) Impairment of long-lived assets

Long-lived assets, including certain intangible assets, to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Such assets are required to be tested for impairment if the carrying amount of the assets is higher than the future undiscounted net cash flows expected to be generated from the assets. The impairment amount to be recognized is measured by the amount by which the carrying value of the assets exceeds its fair value determined using the discounted cash flow approach.

i) Functional and foreign currency translations

The unaudited interim consolidated financial statements are reported in U.S. Dollars. The functional currency for subsidiaries organized in Europe, other than the U.K., is the Euro and the functional currencies of subsidiaries organized in China, India, Japan, the Philippines and the U.K. are their respective local currencies. The functional currency of all other legal entities forming part of the Company is the U.S. Dollar. The translation of the functional currencies of the respective subsidiaries into U.S. Dollars is performed for balance sheet accounts using the exchange rates in effect as of the balance sheet date and for revenues and expense accounts using a monthly average exchange rate prevailing during the respective period. The gains or losses resulting from such translation are reported under accumulated other comprehensive income (losses), net, a separate component of stockholders' equity.

Monetary assets and liabilities of each subsidiary denominated in currencies other than the subsidiary's functional currency are translated into the respective functional currency at the rates of exchange prevailing at the balance sheet date. Transactions of each subsidiary in currencies other than the subsidiary's functional currency are translated into the respective functional currency at the average monthly exchange rate prevailing during the period of the transaction. The gains or losses resulting from foreign currency transactions are included in the unaudited interim consolidated statements of income.

j) Loans held for sale

In 2006, the Company acquired MoneyLine Lending Services, Inc. (now known as Genpact Mortgage Services). Prior to May 31, 2007, one of its activities was to fund mortgage loans, which it then held for sale. Such loans held for sale are carried at the lower of cost or market value, which is determined on an individual loan basis. Market value is equal to the amount of unpaid principal, reduced by market valuation adjustments and increased or reduced by net deferred loan origination fees and costs. It is the Company's intention to sell loans in the secondary market as soon as practical.

k) Derivative instruments and hedging activities

In the normal course of business, the Company uses derivative financial instruments to manage foreign currency exchange rate and interest rate risk. The Company purchases forward foreign exchange contracts to mitigate the risk of changes in foreign exchange rates on inter-company transactions and forecasted transactions denominated in foreign currencies.

The Company designates derivative contracts as cash flow hedges if they satisfy the criteria for hedge accounting under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Changes in fair values of derivatives designated as cash flow hedges are deferred and recorded as a component of accumulated other comprehensive income until the hedged transactions occur and are then recognized in the consolidated statements of income included in foreign exchange (gains) losses, net. Changes in fair value of derivatives not designated as hedging instruments and the ineffective portion of derivatives designated as cash flow and interest rate hedges are recognized in the consolidated statements of income and are included in foreign exchange (gains) losses, net and other income (expense), net, respectively.

In respect of derivatives designated as hedges, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Company also formally assesses

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both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative or a portion thereof is not highly effective as a hedge, or if a derivative ceases to be a highly effective hedge, the Company will prospectively discontinue hedge accounting with respect to that derivative.

In all situations in which hedge accounting is discontinued and the derivative is retained, the Company continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent change in its fair value in the consolidated statement of income. When it is probable that a forecasted transaction will not occur, the Company discontinues hedge accounting and recognizes immediately in the consolidated statement of income the gains and losses attributable to such derivative that were accumulated in other comprehensive income.

l) Income taxes

The Company accounts for income taxes pursuant to the provisions of SFAS No. 109, Accounting for Income Taxes (SFAS No. 109). Under SFAS No. 109, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases and all operating losses carried forward, if any. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of income in the period that includes the enactment date. Deferred tax assets are recognized in full, subject to a valuation allowance that may reduce the amount recognized to that which is more likely than not to be realized. In the case of an entity that benefits from a corporate tax holiday, deferred tax assets or liabilities for existing temporary differences are recorded only to the extent such temporary differences are expected to reverse after the expiry of the tax holiday.

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The current tax liability in relation to the interim consolidated financial statements is provided based on effective tax rate for the entire fiscal year.

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), on January 1, 2007. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. There has been no financial statement impact of FIN 48 implementation other than as disclosed herein.

As of January 1, 2007, the Company had unrecognized tax benefit for uncertain tax positions amounting to \$8,646. Of that amount, \$2,579 relates to periods commencing on or after January 1, 2005, and which would impact the effective tax rate if the underlying issues were favorably resolved. The remaining balance amount of \$6,067 relates to liabilities for uncertain tax positions taken in periods ending on or prior to the 2004 Reorganization. Interest and penalties recognized in accordance with the guidance provided in FIN 48, if any, are being classified as income tax expense. As of January 1, 2007, the liability for uncertain tax positions included approximately \$1,283 of estimated interest and \$nil penalties.

For federal, state and foreign tax purposes, the tax filings of the Company s subsidiaries in the U.S., Hungary, Romania and Mexico remain subject to audit for years 2005 and forward. Income tax filings of the Company s subsidiary in India are subject to examination by Indian taxing authorities for Indian tax years 2004-2005 and forward. Income tax filings of the Company s subsidiary in China are subject to examination by Chinese taxing authorities for years 2000 and forward. Management believes that the outcome of these examinations, and of other pending litigations in India in respect of prior years, will not have a material impact on the Company s consolidated financial statements.

There have been no events since the adoption of FIN 48 that have had a material impact on the liability for uncertain tax positions.

m) Retirement benefits

Contributions to defined contribution plans are charged to unaudited interim consolidated statements of income in the period in which services are rendered by the covered employees. Current services cost for defined benefit plans are accrued in the period to which they relate. In accordance with SFAS No. 87, Employers Accounting for Pensions, the liability in respect of defined benefit plans is calculated annually by the Company using the projected amount credit method. Prior service cost, if any, resulting from an amendment to a plan is recognized and amortized over the remaining period of service of the covered employees. The Company recognizes its liabilities for compensated absences in accordance with the employee benefit policy of the Company.

As of December 31, 2006, the Company adopted SFAS No. 158, Employer s Accounting for Defined Benefit Pensions and Other Post Retirement Benefits.

n) Stock based compensation

Effective January 1, 2006, the Company adopted SFAS No. 123(R), Share Based Payment, (SFAS No. 123(R)), following the prospective transition method. SFAS No. 123(R) requires the measurement and recognition of compensation expense for all stock-based awards based on the grant date fair value of those awards. In adopting SFAS No. 123(R), the Company began to recognize compensation expense for stock options net of estimated forfeitures. Under the prospective transition method, the provisions of SFAS No. 123(R) apply to all awards granted or modified after the date of adoption.

Prior to adoption of SFAS No. 123(R), the Company followed the minimum value method of SFAS No. 123, Accounting for Stock Based Compensation, to account for its stock-based awards. Under this method, compensation expense was recorded on the date of grant, if the fair value of the underlying stock on date of grant exceeded the present value of the stock options on the date of grant. As required under the prospective transition method, for the portion of awards outstanding at the date of initial application of SFAS No. 123(R), the Company continues to apply the minimum value method. For awards granted after the adoption of SFAS 123(R), the Company has elected to amortize the compensation cost on a straight-line basis over the vesting period.

o) Financial instruments and concentration of credit risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents, short term deposits, deposits with banks, derivative financial instruments and accounts receivable. The Company places its cash and cash equivalents with corporations and banks with high investment grade ratings. short term deposits are with GE, a significant shareholder and with other financial institutions of repute. To reduce its credit risk on accounts receivable, the Company performs ongoing credit evaluation of customers.

p) Earnings (loss) per share

In accordance with SFAS No. 128, Earnings Per Share, basic earnings per share is computed using the weighted average number of shares of common share outstanding during the period. Diluted earnings per share are computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. For the purposes of calculating diluted earnings per share, the treasury stock method is used for options except where the results would be anti-dilutive.

q) Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

r) Recently issued accounting pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 provides guidance on the determination of fair value and lays down the fair value hierarchy to classify the source of information used in fair value measurement. The Company is currently evaluating the impact of SFAS No. 157 on its financial statements and will adopt the provisions of SFAS No. 157 for the fiscal year beginning January 1, 2008.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other eligible items at fair value. SFAS No. 159 is expected to expand the use of fair value measurement in the preparation of the financial statements. However, SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. The Company is currently evaluating the impact of SFAS No. 159 on its financial statements and will adopt the provisions of SFAS No. 159 for the fiscal year beginning January 1, 2008.

s) Reclassification

Certain reclassifications have been made in the financial statements of prior periods to conform to the classification used in the current period. These changes have no impact on previously reported net income or stockholders' equity of the Company.

3. Business acquisitions

On March 1, 2007, the Company acquired E-Transparent B.V. and certain related entities, which are controlling partners in a partnership known as ICE, for cash consideration of \$18,488 (including \$3,074 for the acquired working capital) and 1,442,315 common shares of the Company with an estimated fair value of \$23,265. Additionally, acquisition-related expenses as incurred by the Company amounted to \$1,569. Through this acquisition, the Company is providing SAP enterprise solutions to business enterprises.

The operations of ICE have been consolidated in the financial statements of the Company from March 1, 2007.

The terms of the acquisition agreement also provide for the payment of contingent consideration in 2009 to the former shareholders of ICE of an amount not exceeding \$20,552 if certain profitability targets are met.