HEIDRICK & STRUGGLES INTERNATIONAL INC
Form 10-Q
July 26, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

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 0-25837

HEIDRICK & STRUGGLES INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	36-2681268
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

233 South Wacker Drive-Suite 4900
Chicago, Illinois
60606-6303
(Address of Principal Executive Offices)

(312) 496-1200
(Registrant's Telephone Number, Including Area Code)

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 of time 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 small reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

As of July 22, 2016, there were 18,581,628 shares of the Company’s common stock outstanding.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	June 30, 2016	December 31, 2015
	(Unaudited)	
Current assets:		
Cash and cash equivalents	$85,391	$190,452
Accounts receivable, net	107,108	76,058
Prepaid expenses	20,493	19,197
Other current assets	14,030	18,447
Income taxes recoverable	4,812	4,809
Total current assets	231,834	308,963
Non-current assets:		
Property and equipment, net	36,464	36,498
Assets designated for retirement and pension plans	17,208	16,857
Investments	16,782	14,145
Other non-current assets	12,400	11,115
Goodwill	136,066	131,122
Other intangible assets, net	18,438	18,687
Deferred income taxes	34,501	35,331
Total non-current assets	271,859	263,755
Total assets	$503,693	$572,718
Current liabilities:		
Accounts payable	$5,765	$6,150
Accrued salaries and employee benefits	87,654	158,875
Deferred revenue, net	33,638	29,724
Other current liabilities	25,976	31,239
Income taxes payable	2,678	3,442
Total current liabilities	155,711	229,430
Non-current liabilities:		
Accrued salaries and employee benefits	26,693	32,690
Retirement and pension plans	39,059	35,949
Other non-current liabilities	21,851	19,847
Total non-current liabilities	87,603	88,486
Total liabilities	243,314	317,916
Commitments and contingencies (Note 16)		
Stockholders’ equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued at June 30, 2016 and December 31, 2015	—	—
Common stock, $0.01 par value, 100,000,000 shares authorized, 19,585,777 shares issued, 18,577,230 and 18,379,398 shares outstanding at June 30, 2016 and December 31, 2015, respectively	196	196
Treasury stock at cost, 1,008,547 and 1,206,379 shares at June 30, 2016 and December 31, 2015, respectively	(32,947)	(39,583)

Additional paid in capital	228,209	232,358
Retained earnings	55,607	52,572
Accumulated other comprehensive income	9,314	9,259
Total stockholders' equity	260,379	254,802
Total liabilities and stockholders' equity	$503,693	$572,718

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
Revenue before reimbursements (net revenue)	$148,861	$133,045	$279,050	$248,198
Reimbursements	4,955	4,641	9,053	7,967
Total revenue	153,816	137,686	288,103	256,165
Operating expenses:				
Salaries and employee benefits	101,542	90,717	192,660	169,190
General and administrative expenses	35,625	33,156	70,828	63,164
Reimbursed expenses	4,955	4,641	9,053	7,967
Total operating expenses	142,122	128,514	272,541	240,321
Operating income	11,694	9,172	15,562	15,844
Non-operating income (expense):				
Interest, net	58	(175)	130	(246)
Other, net	29	121	78	46
Net non-operating income (expense)	87	(54)	208	(200)
Income before income taxes	11,781	9,118	15,770	15,644
Provision for income taxes	5,126	4,162	7,790	7,262
Net income	6,655	4,956	7,980	8,382
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(1,561)	(455)	(456)	(1,298)
Net unrealized gain (loss) on available-for-sale investments	286	(98)	511	139
Unrealized loss on cash flow hedge	—	(2)	—	(78)
Other comprehensive income (loss), net of tax	(1,275)	(555)	55	(1,237)
Comprehensive income	$5,380	$4,401	$8,035	$7,145
Basic weighted average common shares outstanding	18,557	18,315	18,503	18,282
Dilutive common shares	260	283	260	283
Diluted weighted average common shares outstanding	18,817	18,598	18,763	18,565
Basic net income per common share	$0.36	$0.27	$0.43	$0.46
Diluted net income per common share	$0.35	$0.27	$0.43	$0.45
Cash dividends paid per share	$0.13	$0.13	$0.26	$0.26

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Compre-hensive Income	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2015	19,586	$ 196	1,206	$ (39,583)	$ 232,358	$ 52,572	$ 9,259	$ 254,802
Net income	—	—	—	—	—	7,980	—	7,980
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	55	55
Treasury and common stock transactions:								
Stock-based compensation	—	—	—	—	3,900	—	—	3,900
Vesting of equity, net of tax withholdings	—	—	(167)	5,604	(8,280)	—	—	(2,676)
Re-issuance of treasury stock	—	—	(31)	1,032	(470)	—	—	562
Cash dividends declared ($0.26 per share)	—	—	—	—	—	(4,836)	—	(4,836)
Dividend equivalents on restricted stock units	—	—	—	—	—	(109)	—	(109)
Tax surplus related to stock-based compensation	—	—	—	—	701	—	—	701
Balance at June 30, 2016	19,586	$ 196	1,008	$ (32,947)	$ 228,209	$ 55,607	$ 9,314	$ 260,379

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2016	2015
Cash flows—operating activities:		
Net income	$7,980	$8,382
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	7,645	6,660
Deferred income taxes	1,012	(34)
Stock-based compensation expense	3,900	2,590
Accretion expense related to earnout payments	558	585
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(30,138)	(29,546)
Accounts payable	(1,011)	258
Accrued expenses	(87,255)	(48,620)
Deferred revenue	3,684	3,139
Income taxes payable, net	(712)	(3,763)
Retirement and pension plan assets and liabilities	2,530	1,223
Prepaid expenses	(1,226)	(561)
Other assets and liabilities, net	8,072	(3,451)
Net cash used in operating activities	(84,961)	(63,138)
Cash flows—investing activities:		
Restricted cash	6,501	—
Acquisition of business	(9,006)	—
Capital expenditures	(1,092)	(10,248)
Purchases of available for sale investments	(2,247)	(1,276)
Proceeds from sales of available for sale investments	244	255
Net cash used in investing activities	(5,600)	(11,269)
Cash flows—financing activities:		
Debt repayment	—	(3,000)
Debt issuance costs	—	(381)
Cash dividends paid	(4,946)	(5,003)
Payment of employee tax withholdings on equity transactions	(2,676)	(820)
Acquisition earnout payments	(7,461)	(5,496)
Net cash used in financing activities	(15,083)	(14,700)
Effect of exchange rates fluctuations on cash and cash equivalents	583	(2,361)
Net decrease in cash and cash equivalents	(105,061)	(91,468)
Cash and cash equivalents at beginning of period	190,452	211,352
Cash and cash equivalents at end of period	$85,391	$119,884
Supplemental Schedule of Non-Cash Activities:		
Term loan facility retirement	$—	$(26,500)
Subsequent drawing on line of credit	—	26,500

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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HEIDRICK & STRUGGLES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(All tables in thousands, except share and per share figures)
(Unaudited)

1. Basis of Presentation of Interim Financial Information

The accompanying unaudited Condensed Consolidated Financial Statements of Heidrick & Struggles International, Inc. and subsidiaries (the “Company”) have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Significant items subject to estimates and assumptions include revenue recognition, income taxes, interim effective tax rate and assessment of goodwill and other intangible assets for impairment. Estimates are subject to a degree of uncertainty and actual results could differ from these estimates. These financial statements and notes are to be read in conjunction with the Company’s Consolidated Financial Statements and Notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on March 10, 2016.

2. Summary of Significant Accounting Policies

A complete listing of the Company’s significant accounting policies is discussed in Note 2, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

Recently Issued Financial Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for share-based payment transactions including the income tax accounting, classification of awards as either equity or liabilities, the accounting for forfeitures and classification on the statement of cash flows. The standard is effective for annual reporting periods beginning after December 15, 2016 with early adoption permitted. The Company is currently evaluating the impact of this accounting guidance. The effect is not known or reasonably estimable at this time.

In February 2016, the FASB issued ASU No. 2016-02, Leases, intended to improve financial reporting about leasing transactions. The new guidance will require entities that lease assets to recognize on their balance sheets the assets and liabilities for the rights and obligations created by those leases and to disclose key information about the leasing arrangements. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018 with early adoption permitted. The guidance requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the impact of this accounting guidance. The effect is not known or reasonably estimable at this time.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments including the recognition of unrealized changes in fair value within net income. The standard is effective for annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of this accounting guidance. The effect is not known or reasonably estimable at this time.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The ASU requires that an entity recognizes revenue to depict the transfer of promised goods or services to customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for these goods or services. The effective date has been deferred for one year to the interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted as of the original effective date, which was interim and annual reporting periods beginning after December 15, 2016. The guidance permits the use of either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients or (ii) a retrospective approach with the cumulative effect upon initial adoption recognized at the date of adoption. The Company is currently evaluating the impact of this accounting guidance. The effect is not known or reasonably estimable at this time.

3. Allowance for Doubtful Accounts

The activity of the allowance for doubtful accounts for the six months ended June 30, 2016 is as follows:

Balance at December 31, 2015	$5,376
Provision charged to income	747
Write-offs	(3,124)
Foreign currency translation	(19)
Balance at June 30, 2016	$2,980

4. Property and Equipment, net

The components of the Company’s property and equipment are as follows:

	June 30, 2016	December 31, 2015
Leasehold improvements	$41,293	$40,583
Office furniture, fixtures and equipment	16,750	16,234
Computer equipment and software	29,666	28,648
Property and equipment, gross	87,709	85,465
Accumulated depreciation	(51,245)	(48,967)
Property and equipment, net	$36,464	$36,498

Depreciation expense for the three months ended June 30, 2016 and 2015 was $2.3 million and $1.8 million, respectively. Depreciation expense for the six months ended June 30, 2016 and 2015 was $4.6 million and $4.3 million, respectively.

5. Investments

The Company has a U.S. non-qualified deferred compensation plan that consists primarily of U.S. marketable securities and mutual funds, all of which are valued using Level 1 inputs (See Note 6, Fair Value Measurements). The fair value for these investments was $16.8 million and $14.1 million as of June 30, 2016 and December 31, 2015, respectively. The aggregate cost basis for these investments was $13.2 million and $11.1 million as of June 30, 2016 and December 31, 2015, respectively.

6. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets and liabilities.
- Level 2 – Quoted prices in active markets for similar assets and liabilities, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following tables provide a summary of the fair value measurements at June 30, 2016 and December 31, 2015 for each major category of assets and liabilities measured at fair value on a recurring basis:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
At June 30, 2016				
U.S. non-qualified deferred compensation plan	$ 16,782	$ —	$ —	$ 16,782
Assets designated for retirement and pension plans	—	18,544	—	18,544
Acquisition earnout accruals	—	—	(6,197)	(6,197)
	$ 16,782	$ 18,544	$ (6,197)	$ 29,129

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
At December 31, 2015				
U.S. non-qualified deferred compensation plan	$ 14,145	$ —	$ —	$ 14,145
Assets designated for retirement and pension plans	—	18,164	—	18,164
Acquisition earnout accruals	—	—	(12,033)	(12,033)
	$ 14,145	$ 18,164	$ (12,033)	$ 20,276

The Level 2 assets above are fair valued using a market approach. The Level 3 liabilities include accruals for future earnout payments related to prior acquisitions, the values of which are determined based on discounted cash flow models. The Company considers the recorded value of its financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, and accounts payable, to approximate the fair value of the respective assets and liabilities at June 30, 2016 and December 31, 2015 based upon the short-term nature of the assets and liabilities.

The following table provides a reconciliation of the beginning and ending balance of Level 3 assets and liabilities for the six months ended June 30, 2016.

	Acquisition Earnout Accruals
Balance at December 31, 2015	$ (12,033)
Acquisition earnout (Note 7)	(1,454)
Earnout accretion	(558)
Earnout payments	7,461
Foreign currency translation	387
Balance at June 30, 2016	$ (6,197)

7. Acquisitions

Decision Strategies International, Inc.

On February 29, 2016, the Company acquired substantially all of the assets of Decision Strategies International, Inc. ("DSI"), a Pennsylvania-based business consulting firm and its wholly owned subsidiary, Decision Strategies International (UK) Limited. DSI specializes in advising organizations and institutions on strategic planning and decision making in uncertain operating environments, leadership development and talent strategy. Total consideration for the acquisition of DSI's assets was approximately $9.0 million and was funded from existing cash. The former owners of DSI are eligible to receive an additional cash consideration payment in 2019 based on revenue targets to be achieved in 2017 and 2018. When estimating the value of future cash consideration, the Company has accrued $1.6 million as of June 30, 2016. The Company recognized $0.1 million and $0.1 million of accretion expense included in General and administrative expenses during the three and six months ended

June 30, 2016, respectively. The Company recorded $3.2 million of intangible assets related to customer relationships and $5.7 million of goodwill. The goodwill is primarily related to the acquired workforce and strategic fit.

Co Company Limited

On October 1, 2015, the Company acquired Co Company, a UK-based management consulting firm that specializes in organizational development for £7.1 million (equivalent to $9.4 million and $10.4 million at June 30, 2016 and December 31, 2015, respectively) of initial consideration, pursuant to a stock purchase, which was funded from existing cash. The former owners of Co Company are eligible to receive additional cash consideration upon the realization of specific revenue and EBITDA Margin milestones achieved over the period October 2015 through December 2018. When estimating the fair value of future cash consideration, the Company has accrued £2.9 million (equivalent to $3.8 million and $4.2 million) as of June 30, 2016 and December 31, 2015, of which $0.2 million was paid during the three months ended June 30, 2016. The Company recognized $0.1 million and $0.2 million of accretion expense included in General and administrative expenses during the three and six months ended June 30, 2016, respectively. The Company recorded $2.9 million of intangible assets and $10.7 million of goodwill. The goodwill is primarily related to the acquired workforce and strategic fit.

Scambler MacGregor Executive Search Pty Limited

In November 2013, the Company acquired Scambler MacGregor, an Australian-based retained Executive Search boutique in the financial services industry for 1.1 million Australian dollars (equivalent to $0.8 million at both June 30, 2016 and December 31, 2015) of initial consideration, pursuant to a stock purchase, which was funded from existing cash. In December 2013, the Company paid an additional $0.1 million related to the final working capital settlement. The former owners of Scambler MacGregor are eligible to receive earnout payments of up to 2.8 million Australian dollars (equivalent to $2.1 million and $2.0 million as of June 30, 2016 and December 31, 2015, respectively) based on the achievement of certain revenue metrics over the period November 2013 through December 2018, of which $0.4 million and $0.7 million was paid during the six months ended June 30, 2016 and 2015, respectively. When estimating the fair value of future earnout payments, the Company had accrued 1.0 million Australian dollars and 1.6 million Australian dollars (equivalent to $0.7 million and $1.2 million) as of June 30, 2016 and December 31, 2015, respectively. The Company also recorded $0.4 million of intangible assets and $2.7 million of goodwill. The goodwill is primarily related to the acquired workforce and strategic fit.

Senn-Delaney Leadership Consulting Group, LLC

In December 2012, the Company acquired Senn-Delaney Leadership Consulting Group, LLC, a global leader of corporate culture shaping. Under the terms of the purchase agreement, the Company paid $53.5 million at closing for 100 percent of the equity of Senn Delaney. The agreement also included additional cash consideration up to $15.0 million based on the realization of specific earnings milestones achieved over the period December 2012 through December 2015, of which $6.8 million, $4.8 million and $3.4 million was paid during the three months ended June 30, 2016, 2015 and 2014, respectively. The Company had accrued $6.6 million at December 31, 2015 for the remaining cash consideration, which was paid during the three months ended June 30, 2016. The Company recognized zero and $0.3 million of accretion expense during the three months ended June 30, 2016 and 2015, respectively, and $0.2 million and $0.6 million of accretion expense during the six months ended June 30, 2016 and 2015, respectively. Accretion expense is included in General and administrative expenses in the Condensed Consolidated Statements of Comprehensive Income. At December 31, 2015, the Company held $6.5 million in a retention escrow that was paid to certain key executives of Senn Delaney in January 2016 for remaining with the Company for three years subsequent to the acquisition. The Company recognized zero and $0.5 million of compensation expense during the three months ended June 30, 2016 and 2015, respectively, and zero and $1.0 million of compensation expense during the six months ended June 30, 2016 and 2015, respectively. Compensation expense is included in Salaries and employee benefits in the Condensed Consolidated Statements of Comprehensive Income.

8. Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of goodwill by segment for the six months ended June 30, 2016 are as follows:

	Executive Search and Leadership Consulting			Culture Shaping	
	Americas	Europe	Asia Pacific		Total
Balance at December 31, 2015	$81,626	$10,745	$9,211	$29,540	$131,122
DSI acquisition	5,673	—	—	—	5,673
Foreign currency translation	240	(1,058)	281	(192)	(729)
Balance at June 30, 2016	$87,539	$9,687	$9,492	$29,348	$136,066

On February 29, 2016, the Company acquired DSI and included the fair value of the acquired assets and liabilities as of the acquisition date in the Condensed Consolidated Balance Sheets. The Company also included $5.7 million of goodwill in the Americas segment.

Other Intangible Assets, net

The Company’s other intangible assets, net by segment, are as follows:

	June 30, 2016	December 31, 2015
Executive Search and Leadership Consulting		
Americas	$3,521	$ 764
Europe	1,762	2,548
Asia Pacific	168	209
Total Executive Search and Leadership Consulting	5,451	3,521
Culture Shaping	12,987	15,166
Total other intangible assets, net	$18,438	$ 18,687

The Company identified client relationships of $3.2 million as part of the DSI acquisition and included the fair value in the Americas segment.

The carrying amount of amortizable intangible assets and the related accumulated amortization are as follows:

	Weighted Average Life (in years)	June 30, 2016			December 31, 2015		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	8.4	$28,208	$ (19,258)	$ 8,950	$25,414	$ (17,550)	$ 7,864
Trade name	15.0	9,109	(3,849)	5,260	9,251	(3,416)	5,835
Software	7.0	7,200	(3,600)	3,600	7,200	(3,086)	4,114
Non-compete	5.0	573	(244)	329	586	(117)	469
Technology	3.0	399	(100)	299	442	(37)	405
Total intangible assets	9.9	$45,489	$ (27,051)	$ 18,438	$42,893	$ (24,206)	$ 18,687

Intangible asset amortization expense for the three months ended June 30, 2016 and 2015 was $1.7 million and $1.2 million, respectively. Intangible asset amortization expense for the six months ended June 30, 2016 and 2015 was $3.1 million and $2.3 million, respectively

The Company's estimated future amortization expense related to intangible assets as of June 30, 2016 for the years ended December 31st is as follows:

Remainder of 2016	$3,168
2017	4,897
2018	3,657
2019	2,687
2020	1,294
Thereafter	2,735
Total	$18,438

9. Other Non-Current Liabilities

The components of other non-current liabilities are as follows:

	June 30, 2016	December 31, 2015
Premise related costs	$18,518	$ 17,790
Accrued earnout payments	2,072	788
Other	1,261	1,269
Total other non-current liabilities	$21,851	$ 19,847

10. Line of Credit

On June 30, 2015, the Company entered into a Second Amended and Restated Credit Agreement (the “Restated Credit Agreement”). The Restated Credit Agreement amended and restated the Credit Agreement executed on June 22, 2011 (the “Credit Agreement”). Pursuant to the Restated Credit Agreement, the Company replaced its Revolving Facility and Term Facility (“Existing Facility”) with a single senior unsecured revolving line of credit with an aggregate commitment of up to $100 million, which includes a sublimit of $25 million for letters of credit, and a $50 million expansion feature (the “Replacement Facility”). The Replacement Facility will mature on June 30, 2020. Borrowings under the Restated Credit Agreement bear interest at the Company’s election at the existing Alternate Base Rate (as defined in the Credit Agreement) or Adjusted LIBOR Rate (as defined in the Credit Agreement) plus a spread as determined by the Company’s leverage ratio.

Borrowings under the Replacement Facility may be used for working capital, capital expenditures, Permitted Acquisitions (as defined in the Credit Agreement) and for other general corporate purposes of the Company and its subsidiaries. The obligations under the Replacement Facility are guaranteed by certain of the Company’s subsidiaries.

As of June 30, 2016 and December 31, 2015, the Company had no outstanding borrowings under the Restated Credit Agreement and the Company was in compliance with the financial and other covenants under the Restated Credit Agreement and no event of default existed.

11. Stock-Based Compensation

The Company’s 2012 Heidrick & Struggles GlobalShare Program (the “2012 Program”) provides for grants of stock options, stock appreciation rights, and other stock-based awards that are valued based upon the grant date fair value of shares. These awards may be granted to directors, selected employees and independent contractors. The 2012 Program originally authorized 1,300,000 shares of Common Stock for issuance pursuant to awards under the plan.

On May 22, 2014, the stockholders of the Company approved an amendment to the 2012 Program to increase the number of shares of Common Stock reserved for issuance under the 2012 Program by 700,000 shares. As of June 30, 2016, 1,397,410 awards have been issued under the 2012 Program and 990,794 shares remain available for future awards, which includes 388,204 forfeited awards. The 2012 Program provides that no awards can be granted after May 24, 2022.

The Company measures its stock-based compensation costs based on the grant date fair value of the awards and recognizes these costs in the financial statements over the requisite service period.

A summary of information with respect to stock-based compensation is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Salaries and employee benefits	$ 1,506	$ 1,107	$ 3,337	$ 2,140
General and administrative expenses	563	450	563	450
Income tax benefit related to stock-based compensation included in net income	831	626	1,568	1,042

Restricted Stock Units

Restricted stock unit activity for the six months ended June 30, 2016:

	Number of Restricted Stock Units	Weighted-Average Grant-date Fair Value
Outstanding on December 31, 2015	473,935	$ 19.98
Granted	207,405	22.92
Vested and converted to common stock	(117,845)	20.01
Forfeited	(12,178)	22.66
Outstanding on June 30, 2016	551,317	21.02

As of June 30, 2016, there was $5.6 million of pre-tax unrecognized compensation expense related to unvested restricted stock units, which is expected to be recognized over a weighted average of 2.2 years.

Performance Stock Units

The Company grants performance stock units to certain of its senior executives. The performance stock units are generally subject to a cliff vesting at the end of a three year period. The vesting will vary between 0%—200% based on the attainment of operating income goals over the three year vesting period. The performance stock units are expensed on a straight-line basis over the three year vesting period.

In 2014, the Company granted market-based performance stock units to the Chief Executive Officer. The market-based awards vest after a two year service period and if the price of the Company's common stock exceeds specified targets. The fair value of the market-based awards was determined using the Monte-Carlo simulation model. A Monte Carlo simulation model uses stock price volatility and other variables to estimate the probability of satisfying the market conditions and the resulting fair value of the award. Compensation costs related to the market-based awards are recognized regardless of whether the market condition is satisfied, as long as the requisite service has been provided. All of the market-based performance conditions were satisfied such that all 125,000 performance stock units granted to the Chief Executive Officer vested upon the completion of the two year service period in February 2016.

Performance stock unit activity for the six months ended June 30, 2016:

	Number of Performance Stock Units	Weighted-Average Grant-date Fair Value
Outstanding on December 31, 2015	272,024	$ 18.28
Granted	125,388	22.98
Vested and converted to common stock	(160,600)	15.51
Forfeited	—	—
Outstanding on June 30, 2016	236,812	22.64

As of June 30, 2016, there was $3.6 million of pre-tax unrecognized compensation expense related to unvested performance stock units, which is expected to be recognized over a weighted average of 2.2 years.

12. Income Taxes

The Company reported income before taxes of $11.8 million and $9.1 million and an income tax provision of $5.1 million and $4.2 million for the three months ended June 30, 2016 and 2015, respectively. The increase in the income tax provision was due to higher consolidated income before taxes of $2.7 million and the mix of income.

The Company reported income before taxes of $15.8 million and $15.6 million and an income tax provision of $7.8 million and $7.3 million for the six months ended June 30, 2016 and 2015, respectively. The increase in the income tax provision was due to higher consolidated income before taxes of $0.1 million and the mix of income.

13. Changes in Accumulated Other Comprehensive Income

The changes in Accumulated other comprehensive income ("AOCI") by component for the six months ended June 30, 2016 is summarized below:

	Available-for-Sale Securities	Foreign Currency Translation	Pension	AOCI
Balance at December 31, 2015	$ 2,394	$ 8,561	$(1,696)	$9,259
Other comprehensive income before classification, net of tax	330	(456)	—	(126)
Amount reclassified from AOCI (1)	181	—	—	181
Net current period other comprehensive income	511	(456)	—	55
Balance at June 30, 2016	$ 2,905	$ 8,105	$(1,696)	$9,314

(1) Available-for-Sale Securities reclassifications from AOCI are included in Other, net in the Condensed Consolidated Statement of Comprehensive Income.

14. Segment Information

The Company operates its executive search and leadership consulting services in the Americas; Europe (which includes Africa); and Asia Pacific (which includes the Middle East) and operates its culture shaping business as a separate segment.

For segment purposes, reimbursements of out-of-pocket expenses classified as revenue and other operating income are reported separately and, therefore, are not included in the results of each segment. The Company believes that analyzing trends in revenue before reimbursements (net revenue), analyzing operating expenses as a percentage of net revenue, and analyzing operating income more appropriately reflects its core operations.

The revenue and operating income (loss) by segment are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
Executive Search and Leadership Consulting				
Americas	$84,158	$75,820	$159,359	$140,295
Europe	31,361	24,075	58,122	43,733
Asia Pacific	23,640	24,777	43,524	47,681
Total Executive Search and Leadership Consulting	139,159	124,672	261,005	231,709

Culture Shaping	9,702	8,373	18,045	16,489
Revenue before reimbursements (net revenue)	148,861	133,045	279,050	248,198
Reimbursements	4,955	4,641	9,053	7,967
Total	$153,816	$137,686	$288,103	$256,165

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating income (loss):				
Executive Search and Leadership Consulting				
Outstanding	20.0%	20.0%	17.0%	16.0%
Target	15.0%	15.0%	12.5%	12.5%
Threshold	10.0%	10.0%	8.0%	7.0%

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

Employee Stock Purchase Plan (ESPP)

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

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

During the nine months ended September 30, 2010 and 2011, common shares issued under ESPP were 32,389 and 35,742, respectively.

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

The compensation expense for the employee stock purchase plan is recognized in accordance with the FASB guidance on Compensation-Stock Compensation. The compensation expense for ESPP during the nine months ended September 30, 2010 and 2011, was $51 and $64, respectively, and for the three months ended September 30, 2010 and 2011, was $17 and $24 respectively, and has been allocated to cost of revenue and selling, general, and administrative expenses.

13. Earnings per share

The Company calculates earnings per share in accordance with FASB guidance on Earnings per share. Basic and diluted earnings per common share give effect to the change in the number of common shares of the Company. The calculation of earnings per common share was determined by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the respective periods. The potentially dilutive shares, consisting of outstanding options on common shares, restricted share units, common shares to be issued under employee stock purchase plan and performance units have been included in the computation of diluted net earnings per share and the weighted average shares outstanding, except where the result would be anti-dilutive.

The number of stock options outstanding but not included in the computation of diluted earnings per common share because their effect was anti-dilutive is 9,585,407 and 7,078,561 for the nine months ended September 30, 2010 and 2011, respectively, and is 8,752,810 and 6,561,228 for the three months ended September 30, 2010 and 2011, respectively.

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GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data)

13. Earnings per share (continued)

	Three months ended September 30, 2010	Three months ended September 30, 2011	Nine months ended September 30, 2010	Nine months ended September 30, 2011
Net income attributable to Genpact Limited common shareholders	$ 40,131	$ 48,046	$ 96,152	$ 123,174
Weighted average number of common shares used in computing basic earnings per common share	219,630,410	221,771,264	218,847,260	221,359,288
Dilutive effect of stock based awards	5,200,840	5,001,035	5,736,234	4,794,704
Weighted average number of common shares used in computing dilutive earnings per common share	224,831,250	226,772,299	224,583,494	226,153,992
Earnings per common share attributable to Genpact Limited common shareholders				
Basic	$ 0.18	$ 0.22	$ 0.44	$ 0.56
Diluted	$ 0.18	$ 0.21	$ 0.43	$ 0.54

14. Short-term borrowings

The Company has the following borrowing facilities:

(a) fund-based and non-fund-based credit facilities with banks which are available for operational requirements in the form of overdrafts, letters of credit, guarantees, short-term loans excluding forward hedging. As of September 30, 2011, the limits available was $20,560 and an amount of $4,082 was outstanding for non funded facility.

(b) fund-based and non-fund-based revolving credit facilities of $260,000 for operational requirements expiring May 2015. This was initially used for the acquisition of Headstrong Corporation. As of September 30, 2011, a total of $259,133 was utilized, representing a funded drawdown of $252,000 and non-funded drawdown of $7,133. These facilities bear interest at LIBOR plus a margin 1.65%. Indebtedness under these facilities is secured by certain assets. The agreement contains certain covenants including a restriction on further indebtedness of the Company.

15. Long-term debt

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

The outstanding term loan amounting to $120,000 bears interest at LIBOR plus a margin of 1.65%. The interest rate as of September 30, 2011 was 1.88%. Indebtedness under the loan agreement is secured by certain assets, and the agreement contains certain covenants including a restriction on further indebtedness of the Company. The entire amount remains outstanding as of September 30, 2011. This will be repaid over four years through semi annual repayments of $15,000 commencing six months from the initial drawdown of May 3, 2011.

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

Year	Amount
2011	$ 14,704
2012	29,012
2013	29,334
2014	29,651
2015	14,945
	$ 117,646

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data)

16. Cost of revenue

Cost of revenue consists of the following:

	Three months ended September 30, 2010	Three months ended September 30, 2011	Nine months ended September 30, 2010	Nine months ended September 30, 2011
Personnel expenses	$ 129,219	$ 184,673	$ 365,530	$ 496,546
Operational expenses	62,068	70,605	167,897	200,693
Depreciation and amortization	13,546	13,034	39,192	39,591
	$ 204,833	$ 268,312	$ 572,619	$ 736,830

17. Selling, general and administrative expenses

Selling, general and administrative expenses consist of the following:

	Three months ended September 30, 2010	Three months ended September 30, 2011	Nine months ended September 30, 2010	Nine months ended September 30, 2011
Personnel expenses	$ 51,263	$ 65,684	$ 155,206	$ 172,642
Operational expenses	17,811	27,868	56,369	71,286
Depreciation and amortization	2,198	2,316	7,865	6,105
	$ 71,272	$ 95,868	$ 219,440	$ 250,033

18. Other operating (income) expense, net

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

	Three months ended September 30, 2010	Three months ended September 30, 2011	Nine months ended September 30, 2010	Nine months ended September 30, 2011
Other operating (income) expense	$ (839)	$ (971)	$ (4,780)	$ (2,727)
Impairment of capital work in progress / property, plant and equipment		3,854		5,319
Other operating (income) expense, net	$ (839)	$ 2,883	$ (4,780)	$ 2,592

19. Other income (expense), net

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Interest income	$ 1,127	$ 3,758	$ 3,171	$ 10,921
Interest expense	(629)	(3,063)	(1,734)	(5,662)
Secondary offering expenses			(591)	
Other income (expense)	712	1,452	2,478	3,012
Other income (expense), net	$ 1,210	$ 2,147	$ 3,324	$ 8,271

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GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data)

20. Income taxes

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

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

Opening balance at January 1, 2011	20,016
Increase related to prior year tax positions, including recorded against Goodwill	2,110
Increase related to current year tax positions, including recorded against Goodwill	2,319
Decrease related to prior year tax positions	(150)
Effect of exchange rate changes	(592)
Closing balance at September 30, 2011	23,703

The unrecognized tax benefits as of September 30, 2011 include an amount of $23,541 that, if recognized, would impact the effective tax rate. As of December 31, 2010 and September 30, 2011, the Company has accrued approximately $2,020 and $2,542 respectively, in interest relating to unrecognized tax benefits.

21. Related party transactions

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

The related party transactions can be categorized as follows:

Revenue from services

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

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

For the nine months ended September 30, 2010 and 2011, the Company recognized net revenues from GE of $353,791 and $358,487 respectively, representing 39% and 31%, respectively, of the consolidated total net revenues.

For the three months ended September 30, 2010 and 2011, the Company recognized net revenues from GE of $122,673 and $123,075 respectively, representing 38% and 29%, respectively, of the consolidated total net revenues.

For the nine months ended September 30 2010 and 2011, the Company recognized net revenues of $220 and $293, respectively, and for the three months ended 30 September 2010 and 2011, the Company recognized net revenues of $86 and $135, respectively, from a customer in which one of the Company s directors has a controlling interest.

For the nine months ended September 30 2010 and 2011, the Company recognized net revenues of $0 and $255, respectively, and for the three months ended 30 September 2010 and 2011, the Company recognized net revenues of $0 and $80, respectively, from a customer which has a significant interest in the Company.

GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data)

21. Related party transactions (continued)

Cost of revenue from services

The Company purchases certain services from GE mainly relating to communication and leased assets, which are included as part of operational expenses included in cost of revenue. For the nine months ended September 30, 2010 and 2011, cost of revenue, net of recovery, included amounts of $3,542 and $2,747, respectively, and for the three months ended September 30, 2010 and 2011, cost of revenue, net of recovery, included amounts of $960 and $680, respectively relating to services procured from GE. For the nine months ended September 30, 2010 and 2011, cost of revenue from services also include training and recruitment cost of $897 and $945, respectively, and $318 and $588, for the three months ended September 30, 2010 and 2011, respectively, from its non-consolidating affiliates.

Selling, general and administrative expenses

The Company purchases certain services from GE mainly relating to communication and leased assets, which are included as part of operational expenses included in selling, general and administrative expenses. For the nine months ended September 30, 2010 and 2011, selling, general and administrative expenses, net of recovery, included amounts of $420 and $308, respectively, and for the three months ended September 30, 2010 and 2011, selling, general and administrative expenses, net of recovery, included amounts of $107 and $26, respectively, relating to services procured from GE. For the nine months ended September 30, 2010 and 2011, selling, general, and administrative expenses also include training and recruitment cost and cost recovery, net, of $397 and $118, respectively, and for the three months ended September 30, 2010 and 2011, selling, general, and administrative expenses also include training and recruitment cost and cost recovery, net, of $97 and $122, respectively, from its non-consolidating affiliates.

Other operating (income) expense, net

The Company provides certain shared services such as facility, recruitment, training, and communication to GE. Recovery for such services has been included as other operating income in the Consolidated Statements of Income. For the nine months ended September 30, 2010 and 2011, income from these services was ($1,867) and ($1,633), respectively, and for the three months ended September 30, 2010 and 2011, income from these services was ($626) and ($533), respectively.

Interest income

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

Interest expense

The Company incurred interest expense on finance lease obligations from GE. For the nine months ended September 30, 2010 and 2011, interest expense relating to such related party debt amounted to $265 and $264, respectively, and for the three months ended September 30, 2010 and 2011, interest expense relating to such related party debt amounted to $123 and $73, respectively.

Equity-method investment

During the nine months ended September 30, 2010 and 2011, the Company has made an investment of $2,324 and $0, respectively, in its non-consolidating affiliates and for the three months ended September 30, 2010 and 2011, the Company has made an investment of $0 and $0, respectively, in its non-consolidating affiliates. Further, during the three months ended September 30, 2011, the Company acquired the balance outstanding interest in one of its non-consolidating affiliates (HPP) for a contingent consideration amounting to $6,417 which resulted in such affiliate becoming a wholly owned subsidiary. The results of operations and the fair value of the assets and liabilities of such wholly owned subsidiary are included in the Company s Consolidated Financial Statements from the date of acquisition. Also refer to Note 3(d).

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GENPACT LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Unaudited)

(In thousands, except per share data)

22. Commitments and contingencies

Capital commitments

As of December 31, 2010 and September 30, 2011, the Company has committed to spend $3,041 and $8,229, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of these purchases.

Bank Guarantees

The Company has outstanding Bank guarantees including letter of credit amounting to $12,745 and $11,215, as of December 31, 2010 and September 30, 2011, respectively. Bank guarantees are generally provided to government agencies, excise and customs authorities for the purposes of maintaining a bonded warehouse. These guarantees may be revoked by the governmental agencies if they suffer any losses or damage through the breach of any of the covenants contained in the agreements.

Other commitments

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

23. Subsequent event

Subsequent to September 30, 2011, one of the clients of the Company filed for bankruptcy protection in the US Bankruptcy Court. Accordingly, the Company has recorded a reserve for doubtful receivable of $3,869 during the quarter ended September 30, 2011.

On October 3, 2011, the Company completed its acquisition of Empower Research, LLC (Empower) for cash consideration of $17,100, subject to adjustment based on working capital, cash balances, current indebtedness and company expenses. The agreement also provides for an additional deferred consideration and a contingent earn-out consideration. Empower is an integrated media and business research company with strong capabilities in social media research and measurement.

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

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

Special Note Regarding Forward-Looking Statements

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

our ability to retain existing clients and contracts;

our ability to win new clients and engagements;

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

our beliefs about future trends in our market;

political or economic instability in countries where we have operations;

worldwide political, economic or business conditions;

political, economic or business conditions where our clients operate;

expected spending on business process services by clients;

foreign currency exchange rates;

our rate of employee attrition;

- our effective tax rate; and
- competition in our industry.

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

- our ability to grow our business and effectively manage growth and international operations while maintaining effective internal controls;
- our relative dependence on GE;
- our dependence on revenues derived from clients in the United States;
- our ability to hire and retain enough qualified employees to support our operations;
- our ability to successfully consummate or integrate strategic acquisitions;
- our dependence on favorable tax legislation and tax policies that may be amended in a manner adverse to us or be unavailable to us in the future;
- increases in wages in locations in which we have operations;
- restrictions on visas for our employees traveling to North America and Europe;
- our ability to maintain pricing and asset utilization rates;

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

our ability to retain senior management;

the selling cycle for our client relationships;

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

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

increasing competition in our industry;

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

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

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

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

the international nature of our business;

technological innovation;

our ability to derive revenues from new service offerings; and

unionization of any of our employees.

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

Overview

We are a global leader in business process and technology management services and have developed a science behind superior business processes. Our unique process thought leadership captured in its Smart Enterprise Processes (SEP[SM]) framework, combined with deep domain expertise in multiple industry verticals, delivers better business outcomes across the enterprise, rather than simply providing efficiency gains within a single function. Our Smart Decision Services deliver business insights to its clients through targeted analytics, reengineering expertise, and advanced risk management. We make technology more intelligent by embedding it with these process and data insights in addition to providing a wide range of technology services. Built on a legacy of serving GE for more than 14 years, we enable companies worldwide to make smarter decisions, helping them drive revenue growth, compete more successfully, mitigate risk effectively, and improve operating margins and working capital. Driven by a passion for process and operational excellence based on its Lean and Six Sigma DNA, the company s 53,000+ professionals around the globe deliver world-class business process and technology management services everyday to its more than 600 clients from a network of 51 delivery centers across seventeen countries supporting more than twenty five languages.

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

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

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As of September 30, 2011, we have approximately 53,600 employees with operations in seventeen countries. In the third quarter of 2011, we had net revenues of $429.6 million, of which 71.3% was from clients other than GE, which we refer to as Global Clients.

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

The Company

The 2004 Reorganization

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

The 2007 Reorganization and IPO

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

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

Secondary Offering

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

Acquisitions

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

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

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

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In March 2011, we acquired Akritiv Technologies, Inc., or Akritiv, a provider of cloud-based order-to-cash (OTC) technology solutions with domain expertise in providing Software As A Service (SAAS) solutions for working capital optimization, for a cash consideration of $1.6 million and a contingent consideration with an estimated fair value of $1.7 million. The acquisition of Akritiv was accounted for as a business combination in accordance with the acquisition method.

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

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

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

On July 1, 2011, we acquired Nissan Human Information Services Co., Ltd., a Japanese corporation (NHIS), providing human resource services, for cash consideration of $2 million. Subsequent to the acquisition, NHIS was renamed as Genpact Japan Services Co., Ltd. The acquisition of NHIS was accounted for as a business combination, in accordance with the acquisition method.

On August 24, 2011, we acquired 72.8% membership interest in High Performance Partners LLC (HPP) and thereby increased our membership interest from 27.2% to 100%, making HPP a wholly owned subsidiary. We acquired the 72.8% membership interest for contingent earn-out consideration ranging from $0 to $16 million (based on Earnings Before Interest Depreciation Tax and Amortization (EBIDTA) levels generated in 42 months following the acquisition, free cash flows generated, successful completion of certain sale transactions and revenue generated by our existing business that utilizes HPP technology), which had a preliminary estimated fair value of $6.4 million at the acquisition date. The acquisition of HPP was accounted for as a business combination, in accordance with the acquisition method. We re-measured the existing membership interest of 27.2% which was previously being accounted for as an equity method investment, to its acquisition date fair value and accordingly we recognized a non-cash gain of $0.02 million.

The following table summarizes the preliminary consideration to acquire HPP and the preliminary amounts of identified assets acquired and liabilities assumed at the acquisition date, as well as the fair value of the Company s existing investment in HPP at the acquisition date:

Acquisition date fair value of contingent consideration	$	6.4
Acquisition date fair value of the Company s investment in HPP held before the business combination		1.3
Total	**$**	**7.7**

Recognized amounts of identifiable assets acquired and liabilities assumed		
Intangible assets	$	1.9
Current liabilities		(0.1)
Total identifiable net assets assumed	$	1.8
Goodwill		5.9
Total	**$**	**7.7**

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2011 Credit Facility

We obtained credit facilities aggregating $380.0 million from a consortium of financial institutions to finance in part the acquisition of Headstrong and to provide funds for general corporate purposes, including certain working capital requirements. The credit agreement provides for a $120.0 million term loan and a $260.0 million revolving credit facility. As of September 30, 2011, $120.0 million and $252.0 million were outstanding under the term loan and revolving credit facility respectively. In addition, there was a non funded drawdown of $7.1 million against the revolving credit facility as of September 30, 2011. We have an option to increase the commitment under the credit agreement by up to an additional $100.0 million subject to certain approvals and conditions as set forth in the credit agreement.

Critical Accounting Policies and Estimates

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

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Results of Operations

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

	Three months ended September 30,		Nine months ended September 30,		% Change Increase/(Decrease) Three months ended September 30, 2011 Vs. 2010	Nine months ended September 30, 2011 Vs. 2010
	2010	2011	2010	2011		
	(dollars in millions)		(dollars in millions)			
Net revenues GE	$ 122.7	$ 123.1	$ 353.8	$ 358.5	0.3%	1.3%
Net revenues Global Clients	198.9	306.5	563.6	799.3	54.1%	41.8%
Total net revenues	321.6	429.6	917.4	1,157.7	33.6%	26.2%
Cost of revenue	204.8	268.3	572.6	736.8	31.0%	28.7%
Gross profit	**116.7**	**161.3**	**344.8**	**420.9**	38.1%	22.1%
Gross profit Margin %	**36.3%**	**37.5%**	**37.6%**	**36.4%**		
Operating expenses						
Selling, general and administrative expenses	71.3	95.9	219.4	250.0	34.5%	13.9%
Amortization of acquired intangible assets	3.9	5.8	12.2	14.0	48.5%	14.9%
Other operating (income) expense, net	(0.8)	2.9	(4.8)	2.6	(443.6)%	(154.2)%
Income from operations	**42.4**	**56.7**	**118.0**	**154.3**	33.7%	30.8%
Income from operations % of Net revenues	**13.2%**	**13.2%**	**12.9%**	**13.3%**		
Foreign exchange (gains) losses, net	(5.5)	(9.7)	0.1	(12.4)	76.6%	17,131.5%
Other income (expense), net	1.2	2.1	3.3	8.3	77.4%	148.8%
Income before Equity-method investment activity, net and income tax expense	**49.2**	**68.6**	**121.2**	**175.0**	39.6%	44.4%
Equity-method investment activity, net	0.1	0.0	0.7	0.3	(79.8)%	(59.2)%
Income before income tax expense	**49.0**	**68.6**	**120.5**	**174.7**	39.9%	45.0%
Income tax expense	7.5	18.9	19.6	46.4	152.4%	137.0%
Net Income	**41.6**	**49.7**	**100.9**	**128.3**	19.6%	27.1%
Net income attributable to noncontrolling interest	1.4	1.7	4.8	5.2	16.0%	7.8%
Net income attributable to Genpact Limited shareholders	**$ 40.1**	**$ 48.0**	**$ 96.2**	**$ 123.2**	19.7%	28.1%
Net income attributable to Genpact Limited shareholders % of Net revenues	**12.5%**	**11.2%**	**10.5%**	**10.6%**		

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

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Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

Net revenues. Our net revenues increased by $108.0 million, or 33.6%, in the third quarter of 2011 to $429.6 million compared to $321.6 million in the third quarter of 2010. Our growth in net revenues was a result of an increase in Genpact business process management services and information technology services for Global Clients as well as the acquisition of Headstrong. Growth in net revenues also reflects the strengthening of the euro, Japanese Yen, Australian dollar and Pound sterling against the U.S. dollar, as a portion of our revenues are received in such currencies. Our average headcount increased by 21.3% to approximately 50,100 employees in the third quarter of 2011 up from approximately 41,300 employees in the third quarter of 2010. Our average revenue per employee increased to approximately $34.3 thousand in the third quarter of 2011 from approximately $31.2 thousand in the third quarter of 2010. More than three-fourth of the increase in average revenue per employee was attributable to the acquisition of Headstrong.

Revenues from business process management services as a percentage of total net revenues decreased to 74.3% in the third quarter of 2011 from 86.1% in the third quarter of 2010. Revenues from business process management grew 15.3% to $319.3 million in the third quarter of 2011 from $276.8 million in the third quarter of 2010, primarily led by growth in revenues from Global Clients including revenues from Headstrong business consulting services. Revenues from our information technology business increased by $65.5 million, or 146.5%, in the third quarter of 2011 compared to the third quarter of 2010, primarily driven by the acquisition of Headstrong. Organic information technology services revenues increased by 9.2% in the third quarter of 2011 compared to the third quarter of 2010. As a percentage of net revenues, revenues from our information technology business increased to 25.7% in the third quarter of 2011 up from 13.9% in the third quarter of 2010.

Net revenues from GE increased by $0.4 million, or 0.3%. As described under Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Classification of Certain Net Revenues in our Annual Report on Form 10-K for the year ended December 31, 2010, certain businesses in which GE ceased to be a 20% shareholder are classified as GE net revenues for part of the year until the divesture by GE and as Global Clients net revenues after the divesture by GE. GE revenues for the third quarter of 2011 increased by 0.8% over the third quarter of 2010 after excluding such dispositions by GE in 2010 and 2011. This increase was driven by marginal growth in business process management services offerings for GE Corporate, GE Commercial Finance and GE Infrastructure. As a result of higher growth in revenues from Global Clients, GE net revenues declined as a percentage of our total net revenues from 38.1% in the third quarter of 2010 to 28.7% in the third quarter of 2011.

Net revenues from Global Clients increased by $107.6 million, or 54.1%, compared to the third quarter of 2010. 61.8% of the increase in net revenues from Global Clients was attributable to Headstrong. $22.0 million, or 20.5%, of the increase in net revenues from Global Clients was from clients in the consumer product goods, retail, business services, pharmaceutical and healthcare industries. $13.9 million, or 13.0%, of the increase in net revenues from Global Clients was from clients in the banking, financial services and insurance industries. The balance increase in net revenues from Global Clients was from clients in the manufacturing and auto industries. A portion of the increase in net revenues from Global Clients was also related to GE ceasing to be a 20% shareholder in certain businesses and the reclassification of related net revenues of $0.5 million as described above. As a percentage of total net revenues, net revenues from Global Clients increased from 61.9% in the third quarter of 2010 to 71.3% in the third quarter of 2011.

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

	Three Months Ended September 30,		**% Change Increase/(Decrease)**
	2010	**2011**	**2011 vs. 2010**
	(dollars in millions)		
Personnel expenses	$ 129.2	$ 184.7	42.9%
Operational expenses	62.1	70.6	13.8
Depreciation and amortization	13.5	13.0	(3.8)
Cost of revenue	**$ 204.8**	**$ 268.3**	**31.0%**
Cost of revenue as a % of total net revenues	**63.7%**	**62.5%**	

Cost of revenue increased by $63.5 million, or 31.0%. The increase in cost of revenue was attributable to increased personnel and operational expenses as a result of the acquisition of Headstrong as well as due to the general growth of our business.

Approximately two-thirds of the increase in cost of revenue relates to the acquisition of Headstrong. $3.1million, or 4.9%, of the increase in cost of revenue relates to higher facility and infrastructure related expenses, communication and other expenses partially offset by a decline in consultancy charges recoverable from clients. The remaining increase in cost of revenue was due to an increase in personnel expenses on account of increased headcount and wage inflation partially offset by a decrease in cost of revenue on account

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of higher realization on our contracted India rupee-U.S. dollar hedges in the third quarter of 2011 compared to the third quarter of 2010. As a result, our cost of revenue as a percentage of net revenues decreased from 63.7% in the third quarter of 2010 to 62.5% in the third quarter of 2011.

The largest component of the increase in cost of revenue was personnel expenses, which increased by $55.5 million, or 42.9%. 54.6% of the increase in personnel expenses relates to the acquisition of Headstrong. The increase in personnel expenses was also due to the hiring of new resources to manage growth and overall wage inflation. In addition, revenues from our re-engineering, analytics and risk consulting business, which has higher compensation and benefit costs, increased faster than revenues from other businesses and the increase in costs for such businesses was in line with the increase in revenues. This increase was partially offset by foreign exchange volatility as described above. Our average operational headcount increased by approximately 7,900 employees, or 22.3%, in the third quarter of 2011 compared to the third quarter of 2010. As a result, our personnel expenses as a percentage of net revenues increased from 40.2% in the third quarter of 2010 to 43.0% in the third quarter of 2011.

Operational expenses increased by $8.5 million, or 13.8%. The increase in operational expenses was primarily due to the acquisition of Headstrong and higher facility and infrastructure costs, as a result of the expansion of infrastructure and IT related facilities over the last twelve months in India and China. This increase in operational expenses was partially offset by a decline in consultancy charges recoverable from clients and foreign exchange volatility, as described above. As a result, operational expenses as a percentage of net revenues decreased from 19.3% in the third quarter of 2010 to 16.4% in the third quarter of 2011.

Depreciation and amortization expenses decreased by $0.5 million, or 3.8%. This decrease was due to the foreign exchange volatility described above, partially offset by the acquisition of Headstrong and increased depreciation due to expansion of existing Delivery Centers, infrastructure and IT related facilities. As a percentage of net revenues, depreciation and amortization expenses declined to 3.0% in the third quarter of 2011 from 4.2 % in the third quarter of 2010.

As a result of the foregoing, our gross profit increased by $44.5 million, or 38.1%, and our gross margin increased from 36.3% in the third quarter of 2010 to 37.5% in the third quarter of 2011.

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2011	% Change Increase/(Decrease) 2011 vs. 2010
	(dollars in millions)		
Personnel expenses	$ 51.3	$ 65.7	28.1%
Operational expenses	17.8	27.9	56.5
Depreciation and amortization	2.2	2.3	5.3
Selling, general and administrative expenses	**$ 71.3**	**$ 95.9**	**34.5%**
SG&A as a % of total net revenues	**22.2%**	**22.3%**	

Selling, general and administrative expenses, or SG&A expenses, increased by $24.6 million, or 34.5%. This increase in SG&A expenses was primarily due to the acquisition of Headstrong in the second quarter of 2011 contributing approximately three-fourths of the increase in selling, general and administrative expenses. $4.7 million, or 19.3%, of the increase in selling, general and administrative expenses relates to higher facility and infrastructure related expenses, travel and living expenses and consultancy charges. The remaining increase in selling, general and administrative expenses was due to an increase in personnel expenses on account of increased headcount and wage inflation partially offset by a decrease in selling, general and administrative expenses on account of higher realization on our contracted India rupee-U.S. dollar hedges in the third quarter of 2011 compared to the third quarter of 2010. As a result, as a percentage of net revenues, SG&A expenses increased marginally from 22.2% in the third quarter of 2010 to 22.3% in the third quarter of 2011.

Personnel expenses increased by $14.4 million, or 28.1%. 81.2% of the increase in personnel expenses relates to the acquisition of Headstrong. The increase in personnel expenses was also on account of higher stock based compensation in the third quarter of 2011 related to performance grants issued in 2010 and additional performance grants in 2011 and Restricted Stock Units in the fourth quarter of 2010 and increased front-end sales headcount, general wage inflation, partially offset by the foreign exchange volatility as described above. As a percentage of net revenues, personnel expenses decreased from 15.9% in the third quarter of 2010 to 15.3% in the third quarter of 2011.

The operational expenses component of SG&A expenses increased by $10.1 million, or 56.5%. Approximately 62.7% of the increase in operational expenses was attributable to acquisition of Headstrong. The increase in operational expenses included a reserve for doubtful debts of $3.9 million on account of one of our clients acquired through the Headstrong acquisition that has filed for bankruptcy protection subsequent to the balance sheet date. The balance increase in operational expenses was due to higher facility and infrastructure related expenses, travel and living expenses and consultancy charges. This increase has been partially offset by foreign exchange volatility as described above. As a result, operational expenses as a percentage of net revenues increased marginally from 5.5% in the third quarter of 2010 to 6.5% in the third quarter of 2011.

Depreciation and amortization expenses as a component of SG&A expenses increased marginally by $0.1 million to $2.3 million in the third quarter of 2011. This increase in depreciation and amortization expenses was primarily due to the acquisition of Headstrong in the second quarter of 2011, substantially offset by the foreign exchange volatility, as described above.

Amortization of acquired intangibles. In the third quarter of 2010 and 2011, we incurred non-cash charges of $3.9 million and $5.8 million, respectively. As a result of the acquisition of Headstrong, amortization of acquired intangibles increased by $2.9 million and this increase was partially offset by $0.9 million decline in the amortization of acquired intangibles resulting from the 2004 Reorganization, consistent with the amortization schedule.

Other operating (income) expense, net. Other operating (income) expense, net, consists primarily of income from shared services from GE for the use of our Delivery Centers and certain support functions that GE manages and operates with its own employees and certain other operating losses due to impairment of property and certain capital work in progress items of $3.9 million. This impairment resulted in a $2.9 million loss net of income from shared services in the third quarter of 2011 compared to $0.8 million income in the third quarter of 2010 which primarily consisted of income from shared services from GE. We do not recognize the shared services income as net revenues because it is not currently one of our primary service offerings. However, our costs are included in cost of revenue and SG&A.

Income from operations. As a result of the foregoing factors, income from operations increased by $14.3 million to $56.7 million in the third quarter of 2011. As a percentage of net revenues, income from operations was consistent at 13.2% in the third quarter of 2010 and 2011.

Foreign exchange (gains) losses, net. We recorded a foreign exchange gain of $9.7 million in the third quarter of 2011, primarily due to the re-measurement of our foreign currency assets and liabilities and related foreign exchange contracts resulting from movements in the Indian rupee and U.S. dollar exchange rates in the third quarter of 2011 compared to a foreign exchange gain of $5.5 million in the third quarter of 2010.

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

	Three Months ended September 30, 2010	Three Months ended September 30, 2011	% Change Increase/(Decrease) 2011 vs. 2010
Interest income	$ 1.1	$ 3.8	233.3%
Interest expense	(0.6)	(3.1)	386.8
Other income	0.7	1.5	103.8
Other income (expense), net	$ 1.2	$ 2.1	77.3%
Other income (expense), net as a % of total net revenues	**0.4%**	**0.5%**	

We recorded interest and other income, net of interest expense, of $2.1 million in the third quarter of 2011 compared to $1.2 million in the third quarter of 2010. The change was driven by an increase in interest income due to increased investment in higher interest bearing bank deposits in the third quarter of 2011 compared to the third quarter of 2010 and certain incentives given by the Chinese government in the third quarter of 2011. This increase in interest and other income was partially offset by an increase in interest expense due to borrowings under our new credit facility. As a result of these borrowings, the weighted average rate of interest with respect to outstanding debt under our credit facility increased from 1.3% in the third quarter of 2010 to 1.9% in the third quarter of 2011.

Income before equity-method investment activity, net and income tax expense. As a result of the foregoing factors, income before equity-method investment activity, net and income tax expense increased by $19.5 million. As a percentage of net revenues, income before equity-method investment activity, net and income tax expense increased from 15.3% in the third quarter of 2010 to 16.0% in the third quarter of 2011.

Equity-method investment activity, net. This represents our share of loss from our non-consolidated affiliates, NGEN Media Services Private Limited, a joint venture with NDTV Networks Plc., NIIT Uniqua, a joint venture with NIIT, one of the largest training institutes in Asia and a marginal non-cash gain on account of re measurement of existing equity interest in HPP to fair value on the date of its acquisition.

Income before income tax expense. As a result of the foregoing factors, income before income tax expense increased by $19.6 million. As a percentage of net revenues, income before income tax expense increased from 15.3% of net revenues in the third quarter of 2010 to 16.0% of net revenues in the third quarter of 2011.

Income tax expense. Our income tax expense increased from $7.5 million in the third quarter of 2010 to $18.9 million in the third quarter of 2011. This increase was primarily driven by the complete sunset of the India tax holiday under the STPI regime for remaining exempt locations effective March 31, 2011, by higher tax rates applicable to Headstrong as a result of its jurisdictional mix of income and certain period items accounted for in the third quarter of 2011.

Net income. As a result of the foregoing factors, net income increased by $8.1 million from $41.6 million in the third quarter of 2010 to $49.7 million in the third quarter of 2011. As a percentage of net revenues, our net income was 12.9% in the third quarter of 2010 and 11.6% in the third quarter of 2011.

Net income attributable to noncontrolling interest. The noncontrolling interest was primarily due to the acquisition of E-Transparent B.V. and certain related entities, or ICE, in 2007. It primarily represents the apportionment of profits to the minority partners of ICE. The net income attributable to noncontrolling interest increased from $1.4 million in the third quarter of 2010 to $1.7 million in the third quarter of 2011.

Net income attributable to Genpact Limited shareholders. As a result of the foregoing factors, net income attributable to Genpact Limited shareholders increased by $7.9 million from $40.1 million in the third quarter of 2010 to $48.0 million in the third quarter of 2011. As a percentage of net revenues, our net income was 12.5% in the third quarter of 2010 and 11.2% in the third quarter of 2011.

Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

Net revenues. Our net revenues increased by $240.3 million, or 26.2%, in the nine months ended September 30, 2011 to $1157.7 million compared to $917.4 million in the nine months ended September 30, 2010. Our growth in net revenues was primarily a result of an increase in Genpact business process management services for Global Clients as well as the acquisition of Headstrong. Growth in net revenues also reflects the strengthening of the Japanese yen, euro, Australian dollar and Pound sterling against the U.S. dollar, as a portion of our revenues are received in such currencies. Our average headcount increased by 16.1% to approximately 46,400 employees in the nine months ended September 30, 2011 up from approximately 40,000 employees in the nine months ended September 30, 2010. Our average revenue per employee increased to approximately $34.3 thousand in the nine months ended September 30, 2011 from approximately $30.6 thousand in the nine months ended September 30, 2010. Approximately three-fourths of the increase in average revenue per employee was contributed by the acquisition of Headstrong.

Revenues from business process management services as a percentage of total net revenues decreased to 79.3% in the nine months ended September 30, 2011 from 85.8% in the nine months ended September 30, 2010. Revenues from business process management grew 16.7% to $918.1 million in the nine months ended September 30, 2011 from $786.9 million in the nine months ended September 30, 2010, primarily led by growth in revenues from Global Clients including revenues from Headstrong business consulting services. In addition, our service offerings for GE Corporate, GE Commercial Finance and GE Infrastructure grew in the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. Revenues from our information technology business increased by $109.1 million, or 83.6%, in the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010, primarily driven by the acquisition of Headstrong. Organic information technology services revenues increased by 4.7% in the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. As a percentage of net revenues, revenues from our information technology business increased to 20.7% in the nine months ended September 30, 2011 up from 14.2% in the nine months ended September 30, 2010.

Net revenues from GE increased by $4.7 million, or 1.3%. As described under Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Classification of Certain Net Revenues in our Annual Report on Form 10-K for the year ended December 31, 2010, certain businesses in which GE ceased to be a 20% shareholder are classified as GE net revenues for part of the year until the divesture by GE and as Global Clients net revenues after the divesture by GE. GE revenues for the nine months ended September 30, 2011 increased by 2.2% over the nine months ended September 30, 2010 after excluding such dispositions by GE in 2010 and 2011. This increase was primarily driven by growth in business process management services and the remaining increase was on account of growth in information technology services across GE businesses. As a result of the higher growth in revenues from Global Clients, GE net revenues declined as a percentage of our total net revenues from 38.6% in the nine months ended September 30, 2010 to 31.0% in the nine months ended September 30, 2011.

Net revenues from Global Clients increased by $235.6 million, or 41.8% compared to the nine months ended September 30, 2010. 47.4% of the increase in net revenues from Global Clients was attributable to Headstrong. $79.7 million, or 33.8%, of the increase in net revenues from Global Clients was from clients in the consumer product goods, retail, business services, pharmaceutical and healthcare industries. $40.5 million, or 17.2%, of the increase in net revenues from Global Clients was from clients in the banking, financial services and insurance industries. The balance increase in net revenues from Global Clients was from clients in the manufacturing and auto industries. A portion of the increase in net revenues from Global Clients was also related to GE ceasing to be a 20% shareholder in certain businesses and the reclassification of related net revenues of $2.9 million as described above. As a percentage of total net revenues, net revenues from Global Clients increased from 61.4% in the nine months ended September 30, 2010 to 69.0% in the nine months ended September 30, 2011.

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

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2011	% Change Increase/(Decrease) 2011 vs. 2010
	(dollars in millions)		
Personnel expenses	$ 365.5	$ 496.5	35.8%
Operational expenses	167.9	200.7	19.5
Depreciation and amortization	39.2	39.6	1.0
Cost of revenue	**$ 572.6**	**$ 736.8**	**28.7%**
Cost of revenue as a % of total net revenues	**62.4%**	**63.6%**	

Cost of revenue increased by $164.2 million, or 28.7%. This increase in cost of revenue was due to higher personnel and operational expenses on account of increased headcount and infrastructure costs. The increase also relates to the general growth of our business, cost of headcount and facilities acquired due to the acquisition of Headstrong in the second quarter of 2011 and another business comprising of facility and staff acquired in Danville, Illinois in the second quarter of 2010.

Approximately half of the increase in cost of revenue relates to acquisitions as mentioned above. $20.7 million, or 12.6%, of the increase in cost of revenue relates to higher facility and infrastructure related expenses, business related travel and communication and other expenses, partially offset by a decline in consultancy charges recoverable from clients. It also reflects a higher allocation of such costs to cost of revenue instead of selling, general and administrative expenses due to the growth in operations personnel compared to a decline in support personnel. The remaining increase in cost of revenue was due to an increase in personnel expenses on account of increased headcount and wage inflation partially offset by a decrease in cost of revenue on account of higher realization on our contracted India rupee-U.S. dollar hedges in the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. As a result, our cost of revenue as a percentage of net revenues increased from 62.4% in the nine months ended September 30, 2010 to 63.6% in the nine months ended September 30, 2011.

The largest component of the increase in cost of revenue was personnel expenses, which increased by $131.0 million, or 35.8%. 43.6% of the increase relates to acquisitions as mentioned above. The increase was also due to the hiring of new resources to manage growth, overall wage inflation and an increase in the number of onshore resources which are generally more expensive than offshore resources. In addition, revenues from our re-engineering, analytics and risk consulting business, which has higher compensation and benefit costs, increased faster than revenues from our other businesses and the increase in costs for such businesses was in line with the increase in revenues. The increase in personnel expenses was partially offset by foreign exchange volatility as described above. Our average operational headcount increased by approximately 7,100 employees, or 21.0%, in the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. As a result, our personnel expenses as a percentage of net revenues increased from 39.8% in the nine months ended September 30, 2010 to 42.9% in the nine months ended September 30, 2011.

Operational expenses increased by $32.8 million, or 19.5%. Approximately 61.2% of the increase in operational expenses was on account of acquisitions as mentioned above. The increased operational expenses in the nine months ended September 30, 2011 were also on account of higher infrastructure costs compared to the nine months ended September 30, 2010, as a result of a one time benefit we received in the first half of 2010 on renegotiation of certain contracts related to facilities in India, and expansion of infrastructure and IT related facilities over the last twelve months in Gurgaon and Kolkata, India, the Philippines, the Americas and China. The increase was also on account of the increase in communication costs, business related travel costs and higher allocation to cost of revenue due to the growth in operations personnel compared to a decline in support personnel, partially offset by a decline in consultancy charges recoverable from client and foreign exchange volatility as described above. As a result, operational expenses as a percentage of net revenues decreased from 18.3% in the nine months ended September 30, 2010 to 17.3% in the nine months ended September 30, 2011.

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Depreciation and amortization expenses increased marginally by $0.4 million, or 1.0%. This increase was due to the acquisitions as mentioned above and on account of expansion of existing Delivery Centers, infrastructure and IT related facilities in India, the Philippines, the Americas and China to support growth, offset by foreign exchange volatility as described above. As a percentage of net revenues, depreciation and amortization expenses declined to 3.4% in the nine months ended September 30, 2011 from 4.3% in the nine months ended September 30, 2010.

As a result of the foregoing, our gross profit increased by $76.1 million, or 22.1%, and our gross margin decreased from 37.6% in the nine months ended September 30, 2010 to 36.4% in the nine months ended September 30, 2011.

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

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2011	% Change Increase/(Decrease) 2011 vs. 2010
	(dollars in millions)		
Personnel expenses	$ 155.2	$ 172.6	11.2%
Operational expenses	56.4	71.3	26.5
Depreciation and amortization	7.9	6.1	(22.4)
Selling, general and administrative expenses	**$ 219.4**	**$ 250.0**	**13.9%**
SG&A as a % of total net revenues	**23.9%**	**21.6%**	

Selling, general and administrative expenses, or SG&A expenses, increased by $30.6 million, or 13.9%. This increase in SG&A expenses was primarily due to the acquisition of Headstrong in the second quarter of 2011 and another business comprising of facility and staff acquired in Danville, Illinois in the second quarter of 2010. The increase in SG&A expenses was also on account of increase in front-end sales headcount and operational expenses such as travel expenses and consultancy charges. The increase in SG&A expenses was partially offset by the reduced allocation to SG&A expenses on account of decline in the support personnel compared to increase in operations personnel and higher realization on our contracted Indian rupee-U.S. dollar hedges in the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. In addition, our average support headcount decreased in the nine months ended September 30, 2011 in comparison to the nine months ended September 30, 2010. As a result, as a percentage of net revenues, SG&A expenses decreased from 23.9% in the nine months ended September 30, 2010 to 21.6% in the nine months ended September 30, 2011.

Personnel expenses increased by $17.4 million, or 11.2%. The increase in personnel expenses was due to the above mentioned acquisitions and increase in front-end sales headcount. This increase was partially offset by the foreign exchange volatility as described above. As a percentage of net revenues, personnel expenses decreased from 16.9% in the nine months ended September 30, 2010 to 14.9% in the nine months ended September 30, 2011.

The operational expenses component of SG&A expenses increased by $14.9 million, or 26.5%. Approximately two-thirds of the increase in operational expenses was attributable to the acquisitions as mentioned above including reserve for doubtful debts of $3.9 million on account of one of our clients acquired through the Headstrong acquisition that has filed for bankruptcy protection subsequent to the balance sheet date. The increase in operational expenses was also on account of expenses incurred in relation to the acquisition of Headstrong of $5.6 million, higher facility related expenses and travel and living expenses. This increase has been partially offset by the foreign exchange volatility as described above and a decline of support personnel compared to an increase in operations personnel in the nine months ended September 30, 2011 resulting in reduced allocation to SG&A expenses. As a result, operational expenses as a percentage of net revenues increased from 6.1% in the nine months ended September 30, 2010 to 6.2% in the nine months ended September 30, 2011.

Depreciation and amortization expenses as a component of SG&A expenses decreased by $1.8 million to $6.1 million in the nine months ended September 30, 2011. This decrease in depreciation and amortization expenses was primarily due to a decline in support personnel forming part of SG&A expenses compared to an increase in operations personnel forming part of cost of revenue in the nine months ended September 30, 2011, and consequent reduced allocation to SG&A expenses.

Amortization of acquired intangibles. In the nine months ended September 30, 2010 and 2011, we incurred non-cash charges of $12.2 million and $14.0 million, respectively. As a result of the acquisition of Headstrong in the second quarter of 2011, amortization of acquired intangibles increased by $4.9 million and this increase was offset by a decline in the amortization of acquired intangibles resulting from the 2004 Reorganization, consistent with the amortization schedule.

Other operating (income) expense, net. Other operating (income) expense, net, primarily consists of income from shared services from GE for the use of our Delivery Centers and certain support functions that GE manages and operates with its own

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employees and certain other operating losses due to impairment of property and certain capital work in progress items of $5.3 million. This impairment resulted in a loss of $2.6 million net of income from shared services in the nine months ended September 30, 2011 compared to $4.8 million income in the nine months ended September 30, 2010 which primarily consisted of income from shared services from GE. In addition, there was a higher operating income in the nine months ended September 30, 2010 due to reversal of the reserve of $1.3 million relating to employee related statutory liabilities in one of our subsidiaries. We do not recognize the shared services income as net revenues because it is not currently one of our primary service offerings; however, our costs are included in cost of revenue and SG&A.

Income from operations. As a result of the foregoing factors, income from operations increased by $36.3 million to $154.3 million in the nine months ended 30 September, 2011. As a percentage of net revenues, income from operations increased from 12.9% in the nine months ended September 30, 2010 to 13.3% in the nine months ended September 30, 2011.

Foreign exchange (gains) losses, net. We recorded a foreign exchange gain of $12.4 million in the nine months ended September 30, 2011, primarily due to the re-measurement of our foreign currency assets and liabilities and related foreign exchange contracts resulting from movements in the Indian rupee and U.S. dollar exchange rates in the nine months ended September 30, 2011 compared to a foreign exchange loss of $0.1 million in the nine months ended September 30, 2010, which also included the impact of the discontinuance of certain cash flow hedges in the nine months ended September 30, 2010.

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

	Nine Months ended September 30,		% Change Increase/(Decrease)
	2010	**2011**	**2011 vs. 2010**
Interest income	$ 3.2	$ 10.9	244.4%
Interest expense	(1.7)	(5.7)	226.5
Secondary offering expenses	(0.6)		(100.0)
Other income	2.5	3.0	21.6
Other income (expense), net	$ 3.3	$ 8.3	148.8%
Other income (expense), net as a % of total net revenues	**0.4%**	**0.7%**	

We recorded other income, including interest income, net of interest expense, of $8.3 million in the nine months ended September 30, 2011 compared to $3.3 million in the nine months ended September 30, 2010. The change was driven by an increase in interest income due to increased investment in higher interest bearing bank deposits in the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010, interest income on an income tax refund received in the first half of 2011 and certain incentives given by the Chinese government in the nine months ended September 30, 2011. This increase in interest income was partially offset by increase in interest expense due to borrowings under our new credit facility. As a result of these borrowings, the weighted average rate of interest with respect to outstanding debt under our credit facility increased from 1.1% in the nine months ended September 30, 2010 to 1.8% in the nine months ended September 30, 2011.

Income before equity-method investment activity, net and income tax expense. As a result of the foregoing factors, income before equity-method investment activity, net and income tax expense increased by $53.8 million. As a percentage of net revenues, income before equity-method investment activity, net and income tax expense increased from 13.2% in the nine months ended September 30, 2010 to 15.1% in the nine months ended September 30, 2011.

Equity-method investment activity, net. This represents our share of loss from our non-consolidated affiliates, NGEN Media Services Private Limited, a joint venture with NDTV Networks Plc., NIIT Uniqua, a joint venture with NIIT, one of the largest training institutes in Asia and it also includes a marginal non-cash gain on account of re measurement of existing equity interest in HPP to fair value on the date of its acquisition.

Income before income tax expense. As a result of the foregoing factors, income before income tax expense increased by $54.2 million. As a percentage of net revenues, income before income tax expense increased from 13.1% of net revenues in the nine months ended September 30, 2010 to 15.1% of net revenues in the nine months ended September 30, 2011.

Income tax expense. Our income tax expense increased from $19.6 million in the nine months ended September 30, 2010 to $46.4 million in the nine months ended September 30, 2011. This increase was primarily driven by the complete sunset of the India tax holiday under the STPI regime for remaining exempt locations effective March 31, 2011, by higher tax rates applicable to Headstrong as a result of its jurisdictional mix of income and certain period items accounted for in the third quarter of 2011.

Net income. As a result of the foregoing factors, net income increased by $27.4 million from $100.9 million in the nine months ended September 30, 2010 to $128.3 million in the nine months ended September 30, 2011. As a percentage of net revenues, our net income was 11.0% in the nine months ended September 30, 2010 and 11.1% in the nine months ended September 30, 2011.

Net income attributable to noncontrolling interest. The noncontrolling interest was primarily due to the acquisition of E-Transparent B.V. and certain related entities, or ICE, in 2007. It primarily represents the apportionment of profits to the minority partners of ICE. The net income attributable to noncontrolling interest increased from $4.8 million in the nine months ended September 30, 2010 to $5.2 million in the nine months ended September 30, 2011.

Net income attributable to Genpact Limited shareholders. As a result of the foregoing factors, net income attributable to Genpact Limited shareholders increased by $27.0 million from $96.2 million in the nine months ended September 30, 2010 to $123.2 million in the nine months ended September 30, 2011. As a percentage of net revenues, our net income was 10.5% in the nine months ended September 30, 2010 and 10.6% in the nine months ended September 30, 2011.

Liquidity and Capital Resources

Overview

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

	As of December 31, 2010	As of September 30, 2011	% Change Increase/(Decrease)
	(dollars in millions)		
Cash and cash equivalents	$ 404.0	$ 409.1	1.2%
Short-term investment	77.0		(100.0)
Short-term borrowings		252.0	100.0
Long-term debt due within one year	25.0	28.9	16.0
Long-term debt other than the current portion		88.7	100.0
Genpact Limited total shareholders equity	$ 1,478.7	$ 1,552.8	5.0%

Financial Condition

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

Our cash and cash equivalents were $409.1 million as of September 30, 2011 compared to $404.0 million as of December 31, 2010. Our cash and cash equivalents as of September 30, 2011 were comprised of (a) $168.4 million in cash in current accounts across all operating locations to be used for working capital and immediate capital requirements, (b) $240.2 million in term deposits with banks to be used for medium term planned expenditure and capital requirements, and (c) $0.4 million as restricted cash balance.

We do not have any balance in U.S. treasury bills as of September 30, 2011 compared to $77.0 million of U.S. Treasury bills held as of December 31, 2010.

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

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

	Nine Months Ended September 30, 2010	2011	% Change Increase/(Decrease)
	(dollars in millions)		
Net cash provided by (used in)			
Operating activities	$ 78.0	$ 177.1	(127.1)%
Investing activities	7.7	(506.4)	NM*
Financing activities	(22.4)	341.8	NM*
Net increase in cash and cash equivalents	**$ 63.3**	**$ 12.5**	(80.2)%

* Non Measurable

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Cash flows from operating activities. Our net cash generated from operating activities was $177.1 million in the nine months ended September 30, 2011 compared to $78.0 million in the nine months ended September 30, 2010. Our net income adjusted for amortization and depreciation and other non-cash items increased by $42.5 million. The increase was also on account of better collections of accounts receivable by $4.1 million primarily due to improved receivables management, refund of security deposits of $3.5 million in the third quarter of 2011 and realization of NHIS acquisition related receivables of $3.8 million. In addition, $31.7 million of the increase was attributable to better management of vendor payables including an increase in payable days and changes in employee related accruals primarily attributable to the Headstrong acquisition and incentives. Further, this increase was also due to reduction in payables in the nine months ended September 30, 2010 attributable to the renegotiation of certain vendor contracts and changes in employee programs and policies.

Cash flows from investing activities. Our net cash used in investing activities was $506.4 million in the nine months ended September 30, 2011 compared to $7.7 million of net cash provided by investing activities in the nine months ended September 30, 2010. This was primarily due to payment of $561.8 million, net of cash acquired, for the acquisitions of Headstrong, Akritiv and NHIS in the nine months ended September 30, 2011 compared to $42.6 million paid for business acquisitions, net of cash acquired in the nine months ended September 30, 2010. We received $77.0 million from the sale of U.S. treasury bills, net of purchases, during the nine months ended September 30, 2011, compared to net realization of $89.6 million from the sale of U.S. Treasury bills and $9.7 million from redemption of deposits with GE India during the nine months ended September 30, 2010. We sold U.S. treasury bills in the second quarter of 2011 to finance in part the acquisition of Headstrong. In addition, we paid $22.3 million in the nine months ended September 30, 2011 for purchases of property, plant and equipment compared to $47.7 million in the nine months ended September 30, 2010, primarily driven by better planning and utilization of existing infrastructure (including IT) to create capacity.

Cash flows from financing activities. Our net cash provided by financing activities was $341.8 million in the nine months ended September 30, 2011, compared to $22.4 million of cash used in financing activities in the nine months ended September 30, 2010. The increase was primarily due to proceeds received from short term borrowings (net of repayments) of $252.0 million and long-term debt (net of repayment of $25.0 million due under the credit agreement terminated in April 2011) of $95.0 million compared to repayment of $0.2 million of short term debt and $ 32.5 million of long term debt as part of our scheduled repayments under our credit agreement in the nine months ended September 30, 2010. In addition, we received $ 10.6 million as proceeds from the issuance of common shares on exercise of employee stock options in the nine months ended September 30, 2011 compared to $18.5 million in the nine months ended September 30, 2010. We also paid $9.1 million in expenses directly relating to the new credit facility entered into during the second quarter of 2011.

Financing Arrangements

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

Total long-term debt excluding capital lease obligations was $117.6 million as of September 30, 2011 compared to $25.0 million as of December 31, 2010. The increase in long-term debt (net of repayment) is due to new borrowings to finance in part the acquisition of Headstrong. The weighted average rate of interest with respect to outstanding debt under the credit facility was 1.1% and 1.8% for the nine months ended September 30, 2010 and 2011, respectively. In addition, we must comply with covenants pertaining to interest coverage, leverage and the positive net worth of our Indian business. This debt is also secured by a pledge on certain of our property and assets including equipment, accounts receivable, bank accounts and other current and non current assets. For the quarter ended September 30, 2011, we are in material compliance with all the covenants and undertakings described above.

We finance our short-term working capital requirements through cash flow from operations and credit facilities from banks and financial institutions. As of September 30, 2011, short-term credit facilities available to us aggregated $260.0 million, which are under the same agreement as our new long-term debt facility. Out of this, a total of $259.1 million was utilized, representing a funded drawdown of $252.0 million and non-funded drawdown of $7.1 million. In addition, we have fund-based and non-fund-based credit facilities of $20.6 million with banks for operational requirements, out of which a total of $4.1 million was utilized which represented non funded drawdown.

Off-Balance Sheet Arrangements

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

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Contractual Obligations

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

	(dollars in millions)				
	Less than 1 year	**1-3 years**	**3-5 years**	**After 5 years**	**Total**
Short-term borrowings	$ 252.0	$	$	$	$ 252.0
Long-term debt	28.9	58.8	29.9		117.6
Capital leases	2.1	1.6	0.3		3.9
Operating leases	34.2	49.7	35.1	27.1	146.1
Purchase obligations	10.7				10.7
Capital commitments net of advances	8.2				8.2
Other long-term liabilities	43.2	56.5	15.1		114.8
Total contractual cash obligations	**$ 379.3**	**$ 166.7**	**$ 80.4**	**$ 27.1**	**$ 653.4**

Recent Accounting Pronouncements

Recently adopted accounting pronouncements

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

Recently issued accounting pronouncements

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

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

In September 2011, the FASB issued ASU 2011-08, Intangibles Goodwill and Other (Topic 350). The objective of this Update is to simplify how entities test goodwill for impairment. This Update permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The Update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted,

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including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011. The Company does not expect any material impact upon the adoption of this Update.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer along with the Company s Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to the Exchange Act Rule 13a-15(b). Based upon that evaluation, the Company s Chief Executive Officer along with the Company s Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company s periodic SEC filings.

Changes in Internal Controls Over Financial Reporting

There have been no changes in our internal controls over financial reporting during the quarter ended September 30, 2011, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

PART II

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

Unregistered Sales of Equity Securities

None.

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Use of Proceeds

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

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

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

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

None.

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Exhibit Number	Description
3.1	Memorandum of Association of the Registrant (incorporated by reference to Exhibit 3.1 to Amendment No. 2 of the Registrant s Registration Statement on Form S-1 (File No. 333-142875) filed with the SEC on July 16, 2007).
3.3	Bye-laws of the Registrant (incorporated by reference to Exhibit 3.3 to Amendment No. 4 of the Registrant's Registration Statement on Form S-1 (File No. 333-142875) filed with the SEC on August 1, 2007).
10.1	Amendment No.1, dated August 30, 2011, to the Second Amended and Restated Shareholders Agreement, dated as of June 6, 2011, with certain affiliates of each of General Atlantic LLC, Oak Hill Capital Management, LLC and Wells Fargo & Company. Filed as Exhibit 10.1 to the Company s Form 8-K filed on September 2, 2011.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document (1)
101.SCH	XBRL Taxonomy Extension Schema Document (1)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (1)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (1)

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

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

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SIGNATURES

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

Date: November 9, 2011

GENPACT LIMITED

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

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

Exhibit Number	Description
3.1	Memorandum of Association of the Registrant (incorporated by reference to Exhibit 3.1 to Amendment No. 2 of the Registrant s Registration Statement on Form S-1 (File No. 333-142875) filed with the SEC on July 16, 2007).
3.3	Bye-laws of the Registrant (incorporated by reference to Exhibit 3.3 to Amendment No. 4 of the Registrant's Registration Statement on Form S-1 (File No. 333-142875) filed with the SEC on August 1, 2007).
10.1	Amendment No.1, dated August 30, 2011, to the Second Amended and Restated Shareholders Agreement, dated as of June 6, 2011, with certain affiliates of each of General Atlantic LLC, Oak Hill Capital Management, LLC and Wells Fargo & Company. Filed as Exhibit 10.1 to the Company s Form 8-K filed on September 2, 2011.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document (1)
101.SCH	XBRL Taxonomy Extension Schema Document (1)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (1)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (1)

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

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