

SYNTEL INC
Form 10-Q
November 06, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2009 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 000-22903

SYNTEL, INC.

(Exact Name of Registrant as Specified in Its Charter)

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Michigan
(State or Other Jurisdiction of
Incorporation or Organization)

38-2312018
(IRS Employer
Identification No.)

525 E. Big Beaver Road, Suite 300, Troy, Michigan
(Address of Principal Executive Offices)

48083
(Zip Code)

(248) 619-2800

(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 that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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

Common Stock, no par value: 41,540,426 shares issued and outstanding as of October 31, 2009.

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SYNTEL, INC.

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SYNTEL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE DATA)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30, 2009	2008	SEPTEMBER 30, 2009	2008
Net revenues	\$ 104,698	\$ 103,765	\$ 301,234	\$ 305,697
Cost of revenues	53,088	57,814	156,496	177,542
Gross profit	51,610	45,951	144,738	128,155
Selling, general and administrative expenses	18,926	19,815	58,495	60,046
Income from operations	32,684	26,136	86,243	68,109
Other income, principally interest, net	3,527	629	6,837	718
Income before provision for income taxes	36,211	26,765	93,080	68,827
Income tax expense	5,958	4,620	10,366	8,832
Net income	\$ 30,253	\$ 22,145	\$ 82,714	\$ 59,995
Dividend per share	\$ 0.06	\$ 0.06	\$ 0.18	\$ 0.18
EARNINGS PER SHARE:				
Basic	\$ 0.73	\$ 0.54	\$ 2.00	\$ 1.46
Diluted	\$ 0.73	\$ 0.54	\$ 1.99	\$ 1.45
Weighted average common shares outstanding:				
Basic	41,431	41,275	41,388	41,194
Diluted	41,507	41,347	41,473	41,321
The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.				

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SYNTEL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(IN THOUSANDS)

	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 70,860	\$ 65,031
Short term investments	104,026	67,293
Accounts receivable, net of allowances for doubtful accounts of \$2,349 and \$440 at September 30, 2009 and December 31, 2008, respectively	46,518	48,558
Revenue earned in excess of billings	13,949	6,506
Deferred income taxes and other current assets	24,005	20,099
Total current assets	259,358	207,487
Property and equipment	129,592	114,163
Less accumulated depreciation and amortization	51,083	40,385
Property and equipment, net	78,509	73,778
Goodwill	906	906
Non current Term Deposits with Banks	12,739	72
Deferred income taxes and other non current assets	18,960	13,328
TOTAL ASSETS	\$ 370,472	\$ 295,571
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 8,849	\$ 8,299
Accrued payroll and related costs	25,811	23,942
Income taxes payable	1,177	8,630
Accrued liabilities	12,194	14,352
Deferred revenue	3,673	5,116
Dividends payable	2,767	2,769
Total current liabilities	54,471	63,108
Other non current liabilities	7,171	5,633
TOTAL LIABILITIES	61,642	68,741
SHAREHOLDERS EQUITY		
Total shareholders equity	308,830	226,830
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 370,472	\$ 295,571

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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SYNTEL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(UNAUDITED)
(IN THOUSANDS)

	Common Stock		Restricted Stock		Additional Paid-In Capital	Retained Earnings	Accumulated other Comprehensive Income			Total Shareholders' Equity
	Shares	Amount	Shares	Amount			Unrealized Investment Gain	Unamortised actuarial gain	Foreign Currency Translation Adjustment	
Balance, January 1, 2009	41,265	\$ 1	242	\$ 7,170	\$ 65,739	\$ 180,205	\$ 87	\$ 188	\$ (26,560)	\$ 226,830
Net income						82,714				82,714
Other comprehensive income, net of tax							207	(44)	4,795	4,958
Total Comprehensive Income										87,672
Stock options activity	35				458					458
Restricted stock activity	76		(79)	1,333						1,333
Dividends						(7,463)				(7,463)
Balance, September 30, 2009	41,376	\$ 1	163	\$ 8,503	\$ 66,197	\$ 255,456	\$ 294	\$ 144	\$ (21,765)	\$ 308,830

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements

Table of Contents**SYNTEL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)****(IN THOUSANDS)**

	NINE MONTHS ENDED	
	September 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 82,714	\$ 59,995
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	11,734	9,969
Bad debt provisions	1,644	130
Realized gains on sales of short term investments	(1,184)	(1,251)
Deferred income taxes	(261)	(2,629)
Compensation expense related to restricted stock	1,424	1,542
Adjustment related to the FIN 48 liabilities and other tax credits	(4,301)	(3,320)
Share based compensation expense		22
Changes in assets and liabilities:		
Accounts receivable and revenue earned in excess of billings	(7,190)	(23,846)
Other assets	(20,261)	(4,434)
Accrued payroll and other liabilities	(1,943)	17,226
Deferred revenue	(1,432)	(162)
Net cash provided by operating activities	60,944	53,242
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment expenditures	(14,949)	(29,973)
Purchase of mutual funds	(175,681)	(102,173)
Purchase of term deposits with banks	(49,943)	(17,829)
Proceeds from sales of mutual funds	180,519	96,079
Maturities of term deposits with banks	10,753	13,574
Net cash used in investing activities	(49,301)	(40,322)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	429	215
Tax benefit on stock options exercised		62
Dividends paid	(7,500)	(7,466)
Net cash used in financing activities	(7,071)	(7,189)
Effect of foreign currency exchange rate changes on cash	1,257	2,156
Change in cash and cash equivalents	5,829	7,887
Cash and cash equivalents, beginning of period	65,031	61,555
Cash and cash equivalents, end of period	\$ 70,860	\$ 69,442

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Non cash investing and financing activities:

Cash dividends declared but unpaid	\$ 2,767	\$ 2,659
Cash paid for income taxes	16,982	34,493

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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Syntel, Inc. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Financial Statements

1. BASIS OF PRESENTATION:

The accompanying unaudited condensed consolidated financial statements of Syntel, Inc. (the Company or Syntel) have been prepared by management, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position of Syntel and its subsidiaries as of September 30, 2009, the results of their operations for the three and nine months ended September 30, 2009 and 2008, and cash flows for the nine months ended September 30, 2009 and 2008. The year-end condensed consolidated balance sheet as of December 31, 2008 was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2008.

Operating results for the nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

2. PRINCIPLES OF CONSOLIDATION AND ORGANIZATION

The condensed consolidated financial statements include the accounts of Syntel, Inc. (Syntel), a Michigan corporation, its wholly owned subsidiaries, and a joint venture. All significant inter-company balances and transactions have been eliminated.

The wholly owned subsidiaries of Syntel, Inc. are:

Syntel Limited (Syntel India), an Indian limited liability company;

Syntel (Singapore) PTE. Limited, a Singapore limited liability company;

Syntel Europe Limited (Syntel Europe), an United Kingdom limited liability company;

Syntel Canada Inc., an Ontario limited liability company;

Syntel Deutschland GmbH, a German limited liability company;

Syntel (Hong Kong) Limited, a Hong Kong limited liability company;

Syntel Delaware, LLC (Syntel Delaware), a Delaware limited liability company;

SkillBay LLC (SkillBay), a Michigan limited liability company;

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Syntel (Mauritius) Limited (Syntel Mauritius), a Mauritius limited liability company;

Syntel Consulting Inc. (Syntel Consulting), a Michigan corporation;

Syntel Sterling BestShores (Mauritius) Limited (SSBML), a Mauritius limited liability company;

Syntel Worldwide (Mauritius) Limited, a Mauritius limited liability company and

Syntel (Australia) Pty. Limited., an Australian limited liability company.

The formerly wholly owned subsidiary of Syntel Delaware (as of December 31, 2004) that became a partially owned joint venture of Syntel Delaware on February 1, 2005 is:

State Street Syntel Services (Mauritius) Limited (SSSSML), a Mauritius limited liability company formerly known as Syntel Solutions (Mauritius) Limited.

The wholly owned subsidiary of SSSSML is:

State Street Syntel Services Private Limited, an Indian limited liability company formerly known as Syntel Sourcing Private Limited.

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The wholly owned subsidiaries of Syntel Mauritius are:

Syntel International Private Limited, an Indian limited liability company; and

Syntel Global Private Limited, an Indian limited liability company.
The wholly owned subsidiary of SSBML is:

Syntel Sterling BestShores Solutions Private Limited, an Indian limited liability company.
The wholly owned subsidiary of Syntel Europe is:

Intellisourcing, sarl, a French limited liability company.

3. USE OF ESTIMATES

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include, but are not limited to, the allowance for doubtful accounts, impairment of long-lived assets and goodwill, contingencies and litigation, the recognition of revenues and profits based on the proportional performance method and potential tax liabilities. Actual results could differ from those estimates and assumptions used in the preparation of the accompanying financial statements.

4. REVENUE RECOGNITION

The Company recognizes revenues from time and material contracts as the services are performed.

Revenue from fixed-price applications management, maintenance and support engagements is recognized as earned which generally results in straight-line revenue recognition as services are performed continuously over the term of the engagement.

Revenue from fixed-priced, applications development and integration projects in the Company's application outsourcing and e-Business segments are measured using the proportional performance method of accounting. Performance is generally measured based upon the efforts incurred to date in relation to the total estimated efforts to the completion of the contract. The Company monitors estimates of total contract revenues and costs on a routine basis throughout the delivery period. The cumulative impact of any change in estimates of the contract revenues or costs is reflected in the period in which the changes become known. In the event that a loss is anticipated on a particular contract, provision is made for the estimated loss. The Company issues invoices related to fixed price contracts based on either the achievement of milestones during a project or other contractual terms. Differences between the timing of billings and the recognition of revenue based upon the proportional performance method of accounting are recorded as revenue earned in excess of billings or deferred revenue in the accompanying consolidated balance sheets.

Revenues are reported net of sales incentives.

Reimbursements of out-of-pocket expenses by clients are included in revenue in accordance with Emerging Issues Task Force Consensus (EITF) 01-14, Income Statement Characterization of Reimbursements Received for Out of Pocket Expenses Incurred .

5. STOCK-BASED EMPLOYEE COMPENSATION PLANS

The Company recognizes stock-based compensation expense in the consolidated financial statements for awards of equity instruments to employees and non-employee directors based on the grant-date fair value of those awards on a straight-line basis over the requisite service period of the award, which is generally the vesting term. The benefits of tax deductions in excess of recognized compensation expense is

reported as a financing cash flow.

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The Company enters into foreign exchange forward contracts where the counter party is a bank. The Company purchases foreign exchange forward contracts to mitigate the risk of changes in foreign exchange rates on cash flows denominated in certain foreign currencies. These contracts are carried at fair value with resulting gains or losses included in the consolidated statements of income in other income.

During the quarter ended September 30, 2009, the Company entered into foreign exchange forward contracts with a notional amount of \$45.0 million and with maturity dates of two to three months. During the quarter ended September 30, 2009, contracts amounting to \$ 18.0 million expired resulting in a gain of \$0.73 million. At September 30, 2009, foreign exchange forward contracts amounting to \$38.0 million were outstanding. The fair value of the foreign exchange forward contracts of \$0.69 million is reflected in other current assets in the balance sheet of the Company as at September 30, 2009. During the quarter and period ended September 30, 2009 forward contract gain of \$0.58 million and \$0.05 million for the three and nine months ended September 30, 2009, respectively, pertaining to direct client related contracts is recorded as other income and forward contract gain of \$0.15 million and (\$0.01) million for the three and nine months ended September 30, 2009, respectively, pertaining to inter company related contracts is recorded as other comprehensive income.

7. CASH AND CASH EQUIVALENTS

For the purpose of reporting Cash and Cash Equivalents, the Company considers all liquid investments purchased with an original maturity of three months or less to be cash equivalents.

At September 30, 2009 and December 31, 2008, approximately \$11.9 million and \$12.2 million, respectively, are in a money market fund maintained by JP Morgan Chase Bank NA that invests in corporate bonds and treasury notes. The remaining amounts of cash and cash equivalents were invested in money market accounts with various banking and financial institutions.

8. COMPREHENSIVE INCOME

Total Comprehensive Income for the three and nine months ended September 30, 2009 and 2008 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands)		(In thousands)	
Net income	\$ 30,253	\$ 22,145	\$ 82,714	\$ 59,995
Other comprehensive income:				
- Unrealized investment gain (loss)	37	(25)	207	166
- Unamortised actuarial gain (loss) as per SFAS 158, net of tax	16		(44)	
- Foreign currency translation adjustments	(122)	(16,398)	4,795	(30,904)
Total comprehensive income	\$ 30,184	\$ 5,722	\$ 87,672	\$ 29,257

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the applicable period.

The Company has stock options, which are considered to be potentially dilutive to the basic earnings per share. Diluted earnings per share is calculated using the treasury stock method for the dilutive effect of options which have been granted pursuant to the stock

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option plan, by dividing the net income by the weighted average number of shares outstanding during the period adjusted for these potentially dilutive options, except when the results would be anti-dilutive. The potential tax benefit on exercise of stock options is considered as additional proceeds while computing dilutive earnings per share using the treasury stock method.

The following tables set forth the computation of earnings per share:

	Three Months Ended September 30,			
	2009		2008	
	Weighted Average Shares	Earnings per Share	Weighted Average Shares	Earnings per Share
	<i>(in thousands, except per share earnings)</i>			
Basic earnings per share	41,431	\$ 0.73	41,275	\$ 0.54
Potential dilutive effect of stock options outstanding	76	(0.00)	72	(0.00)
Diluted earnings per share	41,507	\$ 0.73	41,347	\$ 0.54

	Nine Months Ended September 30,			
	2009		2008	
	Weighted Average Shares	Earnings per Share	Weighted Average Shares	Earnings per Share
	<i>(in thousands, except per share earnings)</i>			
Basic earnings per share	41,388	\$ 2.00	41,194	\$ 1.46
Potential dilutive effect of stock options outstanding	85	(0.01)	127	(0.01)
Diluted earnings per share	41,473	\$ 1.99	41,321	\$ 1.45

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The Company is organized geographically and by business segment. For management purposes, the Company is primarily organized on a worldwide basis into four business segments:

Applications Outsourcing

Knowledge Process Outsourcing (KPO)

e-Business and

TeamSourcing

These segments are the basis on which the Company reports its primary segment information to management. Management allocates all corporate expenses among the segments. No balance sheet/identifiable assets data is presented since the Company does not segregate its assets by segment. Financial data for each segment for the three and nine months ended September 30, 2009 and 2008 is as follows:

	Three Months Ended September 30, 2009 2008		Nine Months Ended September 30, 2009 2008	
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Revenues:				
Applications Outsourcing	\$ 77,369	\$ 70,017	\$ 217,082	\$ 202,508
KPO	19,009	19,785	56,859	60,970
e-Business	5,794	11,790	20,724	34,952
TeamSourcing	2,526	2,173	6,569	7,267
	104,698	103,765	301,234	305,697
Gross Profit:				
Applications Outsourcing	33,627	27,363	92,418	72,296
KPO	13,753	11,195	37,866	35,259
e-Business	2,876	6,528	11,104	18,067
TeamSourcing	1,354	865	3,350	2,533
	51,610	45,951	144,738	128,155
Selling, general and administrative expenses	18,926	19,815	58,495	60,046
Income from operations	\$ 32,684	\$ 26,136	\$ 86,243	\$ 68,109

During the three and nine months ended September 30, 2009, American Express Corp. and State Street Bank each contributed revenues in excess of 10% of total consolidated revenues. Revenue from American Express Corp. and State Street Bank was \$22.8 million and \$20.3 million, respectively, during the three months ended September 30, 2009, contributing approximately 21.8% and 19.4%, respectively of total consolidated revenues. The corresponding revenues for the three months ended September 30, 2008 from American Express Corp. and State Street Bank was \$21.7 million and \$19.4 million, respectively, contributing approximately 20.9% and 18.7%, respectively, of total consolidated revenues. During the nine months ended September 30, 2009, revenue from State Street Bank and American Express Corp. was \$61.3 million and \$60.3 million, respectively, contributing approximately 20.4% and 20.0%, respectively, of total consolidated revenues. The corresponding revenues for the nine months ended September 30, 2008 from State Street Bank and American Express Corp. was \$59.8 million and \$59.0

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million respectively, contributing approximately 19.5% and 19.3%, respectively, of total consolidated revenues. At September 30, 2009 and December 31, 2008, accounts receivable from American Express Corp. were \$4.4 million and \$0.9 million, respectively and accounts receivable from State Street Bank were \$8.9 million and \$10.9 million, respectively.

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The Company's net revenues and long-lived assets, by geographic area, are as follows:

Net Revenues (1)	Three Months Ended		Nine Months Ended	
	September 30, 2009	2008	September 30, 2009	2008
	<i>(in thousands)</i>		<i>(in thousands)</i>	
North America (2)	96,430	92,738	276,938	270,176
India	648	2,584	2,719	10,319
Europe (3)	7,290	7,837	20,740	23,704
Rest of the World	330	606	837	1,499
Total revenue	104,698	103,765	301,234	305,697

Long-Lived Assets (4)	As on	As on
	September, 30 2009	December, 31 2008
	<i>(in thousands)</i>	
North America (2)	1,811	2,182
India	77,562	72,479
Europe (3)	42	23
Rest of the World		
Total	79,415	74,684

Notes for the Geographic Information Disclosure:

1. Net revenues are attributed to regions based upon customer location
2. Primarily relates to operations in the United States
3. Primarily relates to operations in the United Kingdom
4. Long-lived assets include property and equipment plus goodwill, net of accumulated depreciation and amortization.

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The following table accounts for the differences between the federal statutory tax rate of 35% and the Company's overall effective tax rate:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Statutory provision	35.0%	35.0%	35.0%	35.0%
State taxes, net of federal benefit	0.3%	(0.1)%	0.4%	0.4%
Foreign effective tax rates different from US statutory rate	(18.8)%	(17.6)%	(19.4)%	(17.7)%
Tax Reserve			(3.5)%	(4.4)%
Others, net			(1.4)%	(0.5)%
Effective Income Tax Rate	16.5%	17.3%	11.1%	12.8%

The Company records provisions for income taxes based on enacted tax laws and rates in the various taxing jurisdictions in which it operates. In determining the tax provisions, the Company also provides for uncertainties in income taxes, when it is more likely than not, based on the technical merits, that a tax position would not be sustained upon examination. Such uncertainties, which are recorded in income taxes payable, are based on management's estimates and accordingly are subject to revision based on additional information. The provision no longer required for any particular tax year is credited to the current period's income tax expenses. Conversely, in the event of a future tax examination, any additional tax expense not previously provided for will be recognized in the period in which the actual liability is concluded or the management determines that the Company will not prevail on certain tax positions taken in filed returns, based on more likely than not concept.

The United States Internal Revenue Services (IRS) commenced an examination of the Company's U.S. income tax returns for years 2004 and 2005 in the first quarter of 2006. During July 2008, the IRS had issued a notice of proposed adjustments towards the Company's transfer pricing tax positions for the year 2004 and the Company had appealed against the IRS position. During first quarter 2009 the Company completed the appeal process with IRS under Fast Track Settlement process and agreed to settle all disagreements with IRS towards the transfer pricing for years 2004, 2005 and 2006 for a certain amount which did not have any negative change to the Company's financial position. The IRS has completed their audits through tax year 2005 and transfer pricing issues through tax year 2006. The Company does not expect any material issues for the remaining open years.

Based upon the expiration of the statute of limitations related to certain global tax contingencies and completion of certain tax audits, the Company reviewed its global liabilities for uncertainties in income taxes and other tax positions during the quarter ended March 31, 2009 and recorded a favorable adjustment which reduced that quarter's tax expense by \$4.3 million.

Syntel Inc. and its subsidiaries file income tax returns in various tax jurisdictions. The Company is no longer subject to US federal tax examinations by tax authorities for years before 2006 and for state tax examinations for years before 2003. Further, Syntel India has disputed tax matters for the financial years 1995-96 to 2004-05 pending at various levels of tax authorities. Financial year 2005-06 and onwards are open for regular tax scrutiny by the Indian tax authorities. However, the tax authorities in India are authorized to re-open the already concluded tax assessments and may re-open the case of Syntel India for financial year 2002-03 and onwards.

On August 19, 2009, the Finance (No.2) Bill received the assent of the President of India and was enacted as the Finance (No. 2) Act, 2009 certain changes were made by the Finance (No. 2) Act, 2009 having implications on the Syntel India entities

The enacted Finance (No. 2) Act abolished the Fringe Benefit Tax, extended the sunset clause for the STPI units by one year through March 31, 2011, increased the Minimum Alternative Tax (MAT) rate from 11.33% to 17.0% and extended the period to claim the MAT credit from 7 years to 10 years. The above changes are appropriately considered during the quarter ended September 30, 2009.

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During the quarter ended March 31, 2008, the Company received favorable orders from the Income Tax Appellate Authorities of one jurisdiction, resulting in meeting the more-likely-than-not threshold for a particular tax position. The Company reviewed its uncertain tax liabilities provided on more likely than not concept and reversed an earlier provision amounting to \$2.99 million, which comprised of \$2.21 million and \$0.78 million towards tax and interest, respectively. The Company is also entitled to interest on the tax paid. For the Financial Year 2001-02. The Bombay High Court has dismissed the Income Tax Department Appeal on account of delay in filing Tax Appeal on July 22, 2009. The Income Tax department may file further before Supreme Court of India or may file a review petition before Bombay High Court. The tax authorities have granted the refund for the period ended September 30, 2009, and the Company has recorded such interest income as of September 30, 2009.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as part of tax expense. During the quarter ended September 30, 2009, the Company recognized interest of approximately \$0.04 million. The liability for unrecognized tax benefits was \$9.6 million as of September 30, 2009, which comprises of \$9.4 million and \$0.2 million towards tax and interest expense respectively.

The Company's amount of unrecognized tax benefits could change in the next twelve months due to the litigation and tax assessment process. At this time, due to the uncertain nature of this process, it is not reasonably possible to estimate an overall range of possible change.

During the three months ended September 30, 2009 and 2008, the effective income tax rates were 16.5% and 17.3%, respectively. During the nine months ended September 30, 2009 and 2008, the effective income tax rates were 11.1% and 12.8%, respectively. The tax rate for the nine months ended September 30, 2009 is impacted by a favorable adjustment of \$4.3 million as a result of the Company's review of its global uncertain tax liabilities provided on more likely than not concept and other tax positions, which is based on the expiration of the statute of limitations related to certain global tax contingencies and completion of certain tax audits. The tax rate for the nine months ended September 30, 2008 is favorably impacted by a reversal of \$2.99 million of taxes provided earlier towards uncertainties under more likely than not concept and \$0.32 million towards credit of Michigan Single Business tax for the years 2001 to 2003.

Syntel's software development centers/units in India located at Mumbai, Chennai, Pune and Gurgaon, enjoy favorable tax provisions due to their registration in Special Economic Zone (SEZ), as Export Oriented Unit (EOU), or as units located in Software Technologies Parks of India (STPI). Under the Indian Income Tax Act, 1961 (the "Act") Units registered with STPI, EOU's and certain units located in SEZ are exempt from payment of corporate income taxes for 10 years of operations on the profits generated by these units or March 31, 2011 (substituted for "2010" by Finance (No. 2) Act, 2009)- the sunset date), whichever is earlier. Certain units located in SEZ are eligible for 100% exemption from payment of corporate taxes for the first 5 years of operation and a 50% exemption for the next 5 years. New units in SEZ operational after April 1, 2005 are eligible for 100% exemption from payment of corporate taxes for first 5 years of operation, 50% exemption for the next 5 years and further 50% for another 5 years subject to fulfillment of certain criteria.

Syntel India has not provided for disputed Indian income tax liabilities amounting to \$1.9 million as of September 30, 2009 for the financial years 1995-96 to 2001-02, after recognizing certain tax liabilities aggregating \$0.04 million provided at the adoption of FIN 48 during the year 2007. Syntel India has obtained an opinion from one independent legal counsel (a former Chief Justice of the Supreme Court of India) for the financial year 1998-99 and opinions from another independent legal counsel (also a former Chief Justice of the Supreme Court of India) for the financial years 1995-96, 1996-97, 1997-98, 1999-2000 and 2000-01 and for subsequent periods, which support Syntel India's position in this matter.

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Syntel India had earlier filed an appeal with the Commissioner of Income Tax (Appeals) (CIT(A)) for the financial year 1998-99 and received a favorable decision. However, the Income Tax Department filed a further appeal with the Income Tax Appellate Tribunal (ITAT) against this favorable decision. In May 2006, the ITAT dismissed the appeal filed by the Income Tax Department. The Income Tax Department filed further appeal before the Bombay High Court. The Bombay High Court has dismissed the Income Tax Department Appeal on account of delay in filing Tax Appeal on July 23, 2009. Income Tax department may file further before Supreme Court of India or may file review petition before Bombay High Court.

A similar appeal filed by Syntel India with the CIT(A) for the financial year 1999-2000 was however dismissed in March 2004. Syntel India has appealed this decision with the ITAT. During the year 2007, Syntel India received a favorable order from the ITAT on this appeal. The Income Tax Department filed further appeal before the Bombay High Court. The Bombay High Court has dismissed the Income Tax Department Appeal on account of delay in filing Tax Appeal on July 22, 2009. Income Tax department may file further before Supreme Court of India or may file review petition before Bombay High Court.

Syntel India has also received orders for appeals filed with the CIT(A) against the demands raised by the Income Tax Officer for similar matters relating to the financial years 1995-96, 1996-97, 1997-98, 2000-01 and 2001-02 and received a favorable decision for 1995-96. The contention of Syntel India was partially upheld for the other years. Syntel India filed a further appeal with the ITAT for the amounts not allowed by the CIT(A). The Income Tax Department has appealed the favorable decisions for 1995-96 and the partially favorable decisions for the year 1996-97, 1997-98 and 2000-01 with the ITAT. The Company has received a favorable order from the ITAT, the Income Tax Department filed further appeals before the Bombay High Court. Of these appeals, the Bombay High Court has dismissed the Income Tax Department Appeal for Financial Year 2001-02 on account of delay in filing Tax Appeal on July 22, 2009. Income Tax department may file further before Supreme Court of India or may file review petition before Bombay High Court.

Syntel India has also not provided for other disputed Indian income tax liabilities aggregating to \$5.2 million as of September 30, 2009 for the financial years 2001-02 to 2004-05 which is after recognizing tax on certain tax liabilities aggregating \$0.03 million provided at the adoption of FIN 48 during the year 2007. Syntel India has obtained opinions from independent legal counsels, which support Syntel India's stand in this matter. Syntel India has received an order from the CIT(A) for the financial year 2001-02 in which the contention of Syntel India was partially upheld. Syntel India filed a further appeal with the ITAT in relation to the amounts not allowed by the CIT(A). The Income Tax Department has also filed a further appeal against the relief granted to Syntel India by CIT(A). Syntel India has received a favorable order from the ITAT on January 24, 2009, wherein the contention of the Company is fully upheld for financial years 2001-02. The Income Tax Department has filed further appeal before the Bombay High Court against the order of ITAT in respect to tax on one item only. The Bombay High Court has dismissed the Income Tax Department Appeal on account of delay in filing Tax Appeal on July 22, 2009. Income Tax department may file further before Supreme Court of India or may file review petition before Bombay High Court.

During the year 2007, Syntel India has received the order for appeal filed with CIT(A) relating to financial year 2002-03, wherein the contention of Syntel India is partially upheld. Syntel India has gone into further appeal with the ITAT for the amounts not allowed by the CIT(A). The Income Tax Department has also filed further appeal against the relief granted to Syntel India by CIT(A). Syntel India and Income Tax Department appeal is fixed for hearing before ITAT on January 12, 2010. Syntel India received an order from the CIT(A) for financial year 2003-04, wherein the contention of Syntel India is partially upheld. Syntel India has gone into further appeal with the ITAT for the amounts not allowed by the CIT(A). The Income Tax Department has also filed further appeal with ITAT against the relief granted to Syntel India by CIT(A). Syntel India and Income Tax Department appeal is fixed for hearing before ITAT on November 10, 2009.

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Further, Syntel India has not provided for disputed income tax liabilities aggregating to \$0.13 million for various years, which is after recognizing certain tax liabilities aggregating \$0.01 million provided at the adoption of FIN 48 during the year 2007, for which Syntel India has filed necessary appeals/ petition.

Syntel India has provided for tax liability amounting to \$2.4 million as of September 30, 2009 in the books for the financial years 1995-96 to 2004-05 on a particular tax matter. Syntel India has been contending the taxability of the same with the Indian Income Tax Department. For the financial years 1998-99 and 1999-00, the ITAT has held the matter in favor of Syntel India. The Income Tax Department filed further appeal before the Bombay High Court. For the financial years 1995-96 to 1997-98 and 2000-01, the Company has received a favorable order from the ITAT, wherein the contention of the Company is upheld for these years. The Income Tax Department filed a further appeal before the Bombay High Court for the financial year 1996-97, 1997-98 and 2000-01. For the financial years 2001-02 and 2002-03, the CIT(A) has held against Syntel India and Syntel India has filed further appeal with the ITAT. Syntel India has received a favorable order from the ITAT on January 24, 2009, wherein the contention of the Company is fully upheld for financial years 2001-02. The Income Tax Department has filed further appeal before the Bombay High Court against the order of ITAT in respect to only one item only. The Bombay High Court has dismissed the Income Tax Department Appeal on account of delay in filing Tax Appeal on July 22, 2009. Income Tax department may file further before Supreme Court of India or may file review petition before Bombay High Court. For the financial year 2003-04, the CIT(A) has partially allowed the appeal in favor of Syntel India. Syntel India has gone into further appeal with the ITAT for the amounts not allowed by the CIT(A). The Income Tax Department has filed further appeal with ITAT for the amounts allowed by the CIT(A). Syntel India and Income Tax Department appeal is fixed for hearing before ITAT on November 10, 2009. For the financial year 2004-05, the Indian Income Tax Department has decided against Syntel India and Syntel India has filed an appeal with the CIT(A). During the quarter ended March 31, 2009, the appeal of the company is fully allowed by the CIT (A) in favor of Syntel India. The Income Tax Department has filed further appeal against the relief granted to Company by CIT (A).

All the above tax exposures involve complex issues and may need an extended period to resolve the issues with the Indian income tax authorities. Management, after consultation with legal counsel, believes that the resolution of the above matters will not have a material adverse effect on the Company's consolidated financial position.

Branch Profit Tax

Syntel India is subject to a 15% USA Branch Profit Tax (BPT) related to its effectively connected income in the USA, to the extent its US taxable adjusted net income during the taxable year is not invested in the USA. The Company expects that US profits earned on or after January 1, 2008 will be permanently invested in the USA. Accordingly, effective January 1, 2008, the provision for Branch profit taxes is not required and accordingly BPT provision amounting to \$0.4 million has not been recorded in the books for the quarter ended September 30, 2009. The accumulated deferred tax liability of \$1.73 million as of December 31, 2007 will continue to be carried forward. Estimated additional Branch Profit taxes which would be due, if US profits were not to be permanently invested, approximate \$1.6 million as of September 30, 2009.

Undistributed earnings of foreign subsidiaries

The Company intends to use accumulated and future earnings of foreign subsidiaries to expand operations outside the United States and, accordingly, undistributed earnings of foreign subsidiaries are considered to be indefinitely reinvested outside the United States and no provision for U. S. federal and state income tax or applicable dividend distribution tax has been provided thereon.

Estimated additional taxes which would be due, if undistributed earnings were to be distributed, approximate \$123.5 million as of September 30, 2009.

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13. STOCK BASED COMPENSATION

Share Based Compensation:

The Company originally established a Stock Option and Incentive Plan in 1997 (the "1997 Plan"). On June 1, 2006 the Company adopted the Amended and Restated Stock Option and Incentive Plan (the "Stock Option Plan"), which amended and extended the 1997 Plan. Under the plan, a total of 8 million shares of Common Stock were reserved for issuance. The dates on which options granted under the Stock Option Plan become first exercisable are determined by the Compensation Committee of the Board of Directors, but generally vest over a four-year period from the date of grant. The term of any option may not exceed ten years from the date of grant.

For certain options granted during 1997, since expired, the exercise price was less than the fair value of the Company's stock on the date of grant and, accordingly, compensation expense had been recognized over the vesting period for such difference. For the options granted thereafter, the Company grants the options at the fair market value on the date of grant of the options.

The Company accounts for share-based compensation based on the estimated fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Statement of Income. Share-based compensation expense recognized as above for the three months ended September 30, 2009 and 2008 was \$0.48 million and \$0.41 million, respectively, including a charge for restricted stock. For the nine months ended September 30, 2009 and 2008, the share-based compensation expense recognized as above was \$1.42 million and \$1.56 million, respectively, including a charge for restricted stock.

The shares issued upon the exercise of the options are generally new share issues.

Restricted Stock:

On different dates during the quarter ended June 30, 2004, the Company issued 319,300 shares of incentive restricted stock to its non-employee directors and some employees as well as to some employees of its subsidiaries. The shares were granted to employees for their future services as a retention tool at a zero exercise price, with the restrictions on transferability lapsing with regard to 10%, 20%, 30%, and 40% of the shares issued on or after the first, second, third and fourth anniversary of the grant dates, respectively. The restriction on all stocks described in this paragraph lapsed during the year ended December 31, 2008.

On different dates during the nine months ended September 30, 2009 and the years ended December 31, 2008, 2007, 2006 and 2005, the Company issued 12,224, 80,676, 14,464, 16,536 and 54,806 shares, respectively, of incentive restricted stock to its non-employee directors and some employees as well as to some employees of its subsidiaries. The shares were granted to employees for their future services as a retention tool at a zero exercise price, with the restrictions on transferability lapsing with regard to 25% of the shares issued on or after the first, second, third and fourth anniversary of the grant dates. Generally, the shares to non-employee directors are granted for their future services starting from the date of the annual meeting to the date of the following annual meeting.

In addition to the shares of restricted stock described above, on different dates during the years ended December 31, 2008, 2007 and 2006 the Company issued another 33,000, 66,000 and 57,500 shares, respectively, of incentive restricted stock to some employees as well as to some employees of its subsidiaries. The shares were granted to employees for their future services as a retention tool at a zero exercise price, with the restrictions on transferability lapsing with regard to 20% of the shares issued on or after the first, second, third, fourth and fifth anniversary of the grant dates.

During the year ended December 31, 2006, the Company issued 153,500 shares of performance restricted stock to some employees as well as to some employees of its subsidiaries. Each such performance restricted stock grant is divided in a pre-defined proportion with the vesting (lifting of restriction) of one portion based on the overall annual performance of the Company and the vesting (lifting

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of restriction) of the other portion based on the achievement of pre-defined long term goals of the Company. These stocks will vest (have the restrictions lifted) over a period of 5 years (at each anniversary) in equal installments, subject to meeting the above pre-defined criteria of overall annual performance and achievement of the long term goal. The stock linked to overall annual performance would lapse (revert to the Company) on non-achievement of the overall annual performance in the given year. However, the stock linked to achievement of the long term goal would roll over into a common pool and would lapse only on the non-achievement of the long term goal on or prior to the end of fiscal year 2012.

During the three months ended September 30, 2009 and 2008, the Company expensed \$0.47 million and \$0.40 million, respectively, as compensation on account of the above stock grants. During the nine months ended September 30, 2009 and 2008, the Company expensed \$1.39 million and \$1.51 million, respectively, as compensation on account of the above stock grants.

The recipients are also eligible for dividends declared on their restricted stock. The dividends accrued or paid on shares of unvested restricted stock are charged to compensation cost. For the three months ended September 30, 2009 and 2008, the Company recorded \$0.01 million and \$0.01 million, respectively, as compensation cost for dividends paid on shares of unvested restricted stock and recorded \$0.04 million and \$0.04 million, respectively, for the nine months ended September 30, 2009 and 2008.

For the restricted stock issued during the years ended December 31, 2008, 2007 and 2006 and for the nine months ended September 30, 2009 the dividend is accrued and paid subject to the same restriction as the restriction on transferability.

The impact on the Company's results of operations of recording stock-based compensation (including impact of restricted stock) for the three and nine months ended September 30, 2009 and 2008 was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Cost of revenues	\$ 117	\$ 100	\$ 354	\$ 455
Selling, general and administrative expenses	359	312	1,070	1,109
	\$ 476	\$ 412	\$ 1,424	\$ 1,564

Cash received from option exercises under all share-based payment arrangements for the three months ended September 30, 2009 and 2008, was \$0.16 million and \$0.02 million respectively and for the nine months ended September 30, 2009 and 2008, was \$0.43 million and \$0.22 million, respectively. New shares were issued for all options exercised during the nine months ended September 30, 2009.

Valuation Assumptions

The Company calculates the fair value of each option award on the date of grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used for each respective period:

	Nine Months Ended September 30,	
	2009	2008
Assumptions:		
Risk free interest rate	2.34%	3.27%
Expected life	5.00	5.00
Expected volatility	61.77%	62.70%
Expected dividend yield	0.50%	0.73%

The Company's computation of expected volatility for the nine months ended September 30, 2009 and 2008 is based on historical volatility from exercised options on the Company's stock. The Company's computation of expected life was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The interest rate for periods within the contractual life of the award is based on the U.S.

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Treasury yield curve in effect at the time of grant. The expected dividend yield is estimated based on the dividend yield at the time of grant, adjusted for expected dividend increases of historical pay out policy.

Share-based Payment Award Activity

The following table summarizes activity under our equity incentive plans for the nine months ended September 30, 2009:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2009	125,203	\$ 13.60		
Granted				
Exercised	36,888	12.70		
Forfeited				
Expired / Cancelled	10,627	23.04		
Outstanding at September 30, 2009	77,688	\$ 13.00	2.45	\$ 2,786
Options Exercisable at September 30, 2009	77,688	\$ 13.00	2.45	\$ 2,786

No options were granted during the three months ended September 30, 2009 and 2008. The aggregate intrinsic value of options exercised during the nine months ended September 30, 2009 and 2008 was \$0.78 million and \$0.16 million, respectively. The aggregate fair value of shares vested during the nine months ended September 30, 2009 and 2008 was \$0 million and \$0.03 million, respectively.

14. PROVISION FOR UNUTILIZED LEAVE

The gross charge for unutilized earned leave was \$0.8 million for the three months ended September 30, 2009 and 2008, respectively, and \$2.9 million and \$3.6 million for the nine months ended September 30, 2009 and 2008, respectively.

The amounts accrued for unutilized earned leave are \$11.3 million and \$9.4 million as of September 30, 2009 and December 31, 2008, respectively, and are included within Accrued payroll and related costs .

15. CONSOLIDATION OF A VARIABLE INTEREST ENTITY

Syntel Delaware is a 100% subsidiary of Syntel Inc and 49% shareholder of the joint venture (JV) entity SSSSML, the other shareholder being an affiliate of State Street Bank. Syntel Delaware has a variable interest in SSSSML as they are entitled to all the profits and solely responsible for all losses incurred by Syntel Mauritius even though it holds only 49% in the Joint Venture entity.

The Company's KPO services to State Street Bank and two other clients are provided through the above joint venture between the Company and an affiliate of State Street Bank. Sales of KPO services only to these three clients represented approximately 18.0% and 16.1% of the Company's total revenues for the period ended September 30, 2009 and 2008, respectively.

16. FAIR VALUE MEASUREMENTS

We adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157) as issued before Accounting Standards Codification (FASB Codification), on January 1, 2008 for financial assets and liabilities, which primarily relate to our investments and forward contracts, and on January 1, 2009, for nonfinancial assets and liabilities.

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This Standard includes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are

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either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions.

The fair value hierarchy consists of the following three levels:

Level 1 Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.

Level 3 Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable. The following table summarizes our financial assets and (liabilities) measured at fair value on a recurring basis in accordance with SFAS No. 157 as of September 30, 2009:

	(In Millions)			
	Level 1	Level 2	Level 3	Total
Cash & Cash Equivalents				
Money Market Funds	16.9			16.9
Short Term Investments-				
Available for Sale Securities	21.9			21.9
Other Current Assets-				
Forward Contract Assets		0.7		0.7
Other Current Liabilities-				
Forward Contract Liabilities				
Total Assets (Liabilities) measured at fair value	38.8	0.7		39.5

The following table summarizes our financial assets and (liabilities) measured at fair value on a recurring basis in accordance with SFAS No. 157 as of December 31, 2008:

	(In Millions)			
	Level 1	Level 2	Level 3	Total
Cash & Cash Equivalents				
Money Market Funds	12.2			12.2
Short Term Investments-				
Available for Sale Securities	25.1			25.1
Other Current Assets-				
Forward Contract Assets				
Other Current Liabilities-				
Forward Contract Liabilities		(0.1)		(0.1)
Total Assets (Liabilities) measured at fair value	37.3	(0.1)		37.2

In addition to the above the following table summarizes the term deposits with various banks outstanding as at September 30, 2009 and December 31, 2008.

Balance Sheet Item

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	As at September 30, 2009	As at December 31, 2008
Cash & Cash Equivalents	24.6	5.0
Short Term Investments	82.1	42.2
Non Current Assets	12.7	0.1
Total	119.4	47.3

17. RECLASSIFICATION

Certain prior period amounts have been reclassified to conform to the current period presentation.

Table of Contents**18. SUBSEQUENT EVENTS**

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2009, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through November 06, 2009, the date these financial statements were issued.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**SYNTEL INC. AND SUBSIDIARIES****RESULTS OF OPERATIONS**

Net Revenues. The Company's revenues consist of fees derived from its Applications Outsourcing, Knowledge Process Outsourcing (KPO), e-Business and TeamSourcing business segments. Net revenues for the three months ended September 30, 2009 increased to \$104.7 million from \$103.8 million for the three months ended September 30, 2008, representing a 0.9% increase. The Company's verticalization sales strategy focusing on Banking and Financial Services; Healthcare; Insurance; Telecom; Automotive; Retail; Logistics and Travel has enabled better focus and relationships with key clients. Further, continued focus on execution and investments in new offerings such as our Testing and Center of Excellence have a potential to contribute growth in the business. The focus is to continue investments in more new offerings and geographical expansion. Worldwide billable headcount as of September 30, 2009 increased by 0.4% to 8,546 employees as compared to 8,509 employees as of September 30, 2008. However, the growth in revenues was not commensurate with the growth in the billable headcount. This is primarily because a significant growth in the billable headcount was in India, where our revenues per offshore billable resource are generally lower as compared to an on-site based resource. As of September 30, 2009, the Company had approximately 81.0% of its billable workforce in India as compared to 80.0% as of September 30, 2008. The Company's top five clients accounted for 61.7% of the total revenues in the three months ended September 30, 2009, up from 58.9% of its total revenues in the three months ended September 30, 2008. Moreover, the Company's top 10 clients accounted for 75.5% of the total revenues in the three months ended September 30, 2009 as compared to 72.3% in the three months ended September 30, 2008.

Applications Outsourcing Revenues. Applications Outsourcing revenues increased to \$77.4 million for the three months ended September 30, 2009 or 73.9% of total revenues, from \$70.0 million, or 67.5% of total revenues for the three months ended September 30, 2008. The \$7.4 million increase was attributable primarily to revenues from new engagements contributing \$57.8 million, largely offset by \$50.4 million in lost revenues as a result of project completion and net reduction in revenues from existing projects. The revenues for the nine months ended September 30, 2009 increased to \$217.1 million, or 72.1% of total revenues, from \$202.5 million or 66.2% of total revenues for the nine months ended September 30, 2008. The \$14.6 million increase for the nine months ended September 30, 2009 was attributable primarily to revenues from new engagements of \$149.4 million, largely offset by \$134.8 million in lost revenues as a result of project completion and net decrease in revenues from existing projects.

Applications Outsourcing Cost of Revenues. Applications Outsourcing cost of revenues consists of costs directly associated with billable consultants in the US and offshore, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation and travel. Applications Outsourcing cost of revenues decreased to 56.5% of total Applications Outsourcing revenues for the three months ended September 30, 2009, from 60.9% for the three months ended September 30, 2008. The 4.4% decrease in cost of revenues, as a percent of revenues for the three months ended September 30, 2009, as compared to the three months ended September 30, 2008, was attributable primarily to better utilization of resources, rupee depreciation, cost rationalization and increase in revenue partly offset by increase in other expenses. Cost of revenues for the nine months ended September 30, 2009 decreased to 57.4% of total Applications Outsourcing revenues, from 64.3% for the nine months ended September 30, 2008. The 6.9 percentage point decrease in cost of revenues, as a percent of revenues for the nine months ended

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September 30, 2009, as compared to the nine months ended September 30, 2008, was attributable primarily to better utilization of resources, rupee depreciation, cost rationalization and increase in revenue, partly offset by increase in other expenses.

KPO Revenues. KPO revenues decreased to \$19.0 million for the three months ended September 30, 2009, or 18.2% of total revenues, from \$19.8 million, or 19.1% of total revenues for the three months ended September 30, 2008. The \$0.8 million decrease was attributable primarily to \$5.7 million in lost revenues as a result of project completion and net reduction in revenues from existing projects, largely offset by revenues from new engagements contributing \$4.9 million. The revenues for the nine months ended September 30, 2009 decreased to \$56.9 million, or 18.9% of the total revenues, from \$61.0 million, or 19.9% of the total revenues for the nine months ended September 30, 2008. The \$4.1 million decrease for the nine months ended September 30, 2009 was attributable primarily to lost revenues as a result of project completion and net decrease in revenues from existing projects by \$16.3 million, largely offset by \$12.2 million in additional revenues from new engagements.

KPO Cost of Revenues. KPO cost of revenues consists of costs directly associated with billable consultants, including salaries, payroll taxes, benefits, finder's fees, trainee compensation, and travel. Cost of revenues for the three months ended September 30, 2009 decreased to 27.7% of KPO revenues from 43.4% for the three months ended September 30, 2008. Cost of revenues for the nine months ended September 30, 2009 decreased to 33.4% of KPO revenues, from 42.2% for the nine months ended September 30, 2008. Both 15.7 and 8.8 percentage point decrease in cost of revenues, as a percent of total KPO revenues, as compared to the three and nine months ended September 30, 2008, was attributable primarily to better utilization of resources, rupee depreciation, cost rationalization partly offset by increase in other expenses.

e-Business Revenues. E-Business revenues decreased to \$5.8 million for the three months ended September 30, 2009, or 5.5% of total revenues, from \$11.8 million, or 11.4% of total revenues for the three months ended September 30, 2008. The \$6.0 million decrease was attributable primarily to \$9.5 million in lost revenues as a result of project completion and net reduction in revenues from existing projects, largely offset by revenues from new engagements contributing \$3.5 million. The revenues for the nine months ended September 30, 2009 decreased to \$20.7 million, or 6.9% of total revenues, from \$35.0 million or 11.4% of total revenues for the nine months ended September 30, 2008. The \$14.3 million decrease for the nine months ended September 30, 2009 was attributable principally to lost revenues as a result of project completion and net decrease in revenues from existing projects by \$22.3 million, largely offset by \$8.0 million in additional revenues from new engagements.

e-Business Cost of Revenues. e-Business cost of revenues consists of costs directly associated with billable consultants in the US and offshore, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation, and travel. e-Business cost of revenues increased to 50.4% of total e-Business revenues for the three months ended September 30, 2009, from 44.6% for the three months ended September 30, 2008. The 5.8% increase in cost of revenues as a percent of e-Business revenues for the three months ended September 30, 2009, as compared to the three months ended September 30, 2008, is principally attributable to decrease in e-Business revenues partly offset by rupee depreciation and better utilization of resources. Cost of revenues for the nine months ended September 30, 2009 decreased to 46.4% of total e-business revenues, from 48.3% for the nine months ended September 30, 2008. The 1.9 percentage point decrease in cost of revenues, as a percent of revenues for the nine months ended September 30, 2009, as compared to the nine months ended September 30, 2008, was attributable primarily to better utilization of resources, rupee depreciation and cost rationalization, partly offset by decrease in revenue and increase in other expenses.

TeamSourcing Revenues. TeamSourcing revenues increased to \$2.5 million for the three months ended September 30, 2009, or 2.4% of total revenues, from \$2.2 million, or 2.1% of total revenues for the three months ended September 30, 2008. The \$0.3 million increase was attributable primarily to revenues from new engagements and revenue from the SkillBay web portal, which helps clients of Syntel with their supplemental staffing requirements, contributing \$2.0 million, partially offset by \$1.7 million in lost revenues as

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a result of project completion, including conversion of staffing engagements into Syntel managed engagements, and net reduction in revenues from existing projects. The revenues for the nine months ended September 30, 2009 decreased to \$6.6 million, or 2.2% of total revenues, from \$7.3 million or 2.4% of total revenues for the nine months ended September 30, 2008. The \$0.7 million decrease for the nine months ended September 30, 2009 was attributable principally to \$5.6 million in lost revenues as a result of project completion and net reduction in revenues from existing projects, largely offset by revenues from new engagements and revenue from the SkillBay web portal contributing \$4.9 million.

TeamSourcing Cost of Revenues. TeamSourcing cost of revenues consists of costs directly associated with billable consultants in the US, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation, and travel. TeamSourcing cost of revenues decreased to 46.4% of TeamSourcing revenues for the three months ended September 30, 2009, from 60.2% for the three months ended September 30, 2008. Cost of revenues for the nine months ended September 30, 2009 decreased to 49.0% of total TeamSourcing revenues, from 65.1% for the nine months ended September 30, 2008. Both 13.8 and 16.1 percentage point decrease in TeamSourcing cost of revenues, as a percent of TeamSourcing revenues, is attributable primarily to better utilization of resources.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses consist primarily of salaries, payroll taxes and benefits for sales, solutions, finance, administrative, and corporate staff; travel; telecommunications; business promotions; and marketing and various facility costs for the Company's global development centers and other offices. Selling, general, and administrative expenses for the three months ended September 30, 2009 were \$18.9 million or 18.1% of total revenues, compared to \$19.8 million or 19.1% of total revenues for the three months ended September 30, 2008.

The 1.0 percentage point decrease is primarily due to increase in revenue that resulted in 0.1 percentage point decrease partially offset by foreign exchange loss during the quarter ended September 30, 2008 of \$1.7 million that has resulted in an approximately 1.9 percentage point increase. Selling, general and administrative expenses for the three months ended September 30, 2009 was impacted by decrease in compensation and benefits of \$0.7 million, decrease in travel \$0.6 million, decrease in facility related costs \$1.7 million and decrease in marketing fees \$0.7 million partially offset by increase in depreciation & amortization of \$0.8 million, which has resulted in an approximately 2.8 percentage point net decrease as compared to the three months ended September 30, 2008.

Selling, general, and administrative expenses for the nine months ended September 30, 2009 were \$58.5 million or 19.4% of total revenues, compared to \$60.0 million or 19.6% of total revenues for the nine months ended September 30, 2008.

The 0.2 percentage point decrease is primarily due to decrease in selling, general and administrative expenses. Cost decreases include decrease in compensation cost of \$2.4 million, decrease in travel \$1.0 million, decrease in facility cost \$5.0 million, decrease in marketing fees & commission \$1.8 million and decrease in other expenses \$0.1 million partly offset by increase in depreciation & amortization \$2.6 million, increase in provision for doubtful debts \$1.5 million which has resulted in an approximately 2.1 percentage point net decrease. The decrease in revenue resulted in 0.3 percentage point increase and the foreign exchange loss of \$4.7 million resulted in an approximately 1.6 percentage point increase as compared to the nine months ended September 30, 2009.

Other Income. Other income (expense) includes interest and dividend income, gains and losses from sale of securities, other investments and treasury operations.

Other income for the three months ended September 30, 2009 was \$3.5 million or 3.4% of total revenues, compared to \$0.6 million or 0.6% of total revenues for the three months ended September 30, 2008. The increase in other income of \$2.9 million was primarily due to gain on forward contract of \$1.7 million, increase in interest income of \$0.8 million, interest on income tax refund of \$0.7 million offset by decrease in gain on sale of mutual fund \$0.3 million.

Other income for the nine months ended September 30, 2009 was \$6.8 million or 2.3% of total revenues, compared to \$0.7 million or 0.2% of total revenues for the nine months ended September 30, 2008. The increase in other income of \$6.1 million was primarily due

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to gain on forward contract of \$4.2 million, increase in interest income of \$1.3 million, interest on income tax refund \$0.7 million offset by decrease in gain on sale of mutual fund of \$0.1 million.

Income Taxes

The Company records provisions for income taxes based on enacted tax laws and rates in the various taxing jurisdictions in which it operates. In determining the tax provisions, the Company has provided for tax contingencies based on FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48) and on the Company's assessment of future regulatory reviews of filed tax returns. Such reserves, which are recorded in income taxes payable, are based on FIN 48 interpretation and on management's estimates and may also be revised based on additional information. The provision no longer required for any particular tax year is credited to the current period's income tax expenses.

During the three months ended September 30, 2009 and 2008, the effective income tax rates were 16.5% and 17.3%, respectively. During the nine months ended September 30, 2009 and 2008, the effective income tax rates were 11.1% and 12.8%, respectively. The tax rate for the nine months ended September 30, 2009 is impacted by a favorable adjustment of \$4.3 million as a result of the Company's review of its global FIN 48 liabilities and other tax positions, which is based on the expiration of the statute of limitations related to certain global tax contingencies and completion of certain tax audits. The tax rate for the nine months ended September 30, 2008 is favorably impacted by a reversal of \$2.99 million of taxes provided earlier under FIN 48 and \$0.32 million towards credit of Michigan Single Business tax for the years 2001 to 2003.

FINANCIAL POSITION

Cash and Cash Equivalents: Cash and Cash equivalents increased from \$69.4 million at September 30, 2008 to \$70.9 million at September 30, 2009 primarily due to increased collections during the nine months ended September 30, 2009.

LIQUIDITY AND CAPITAL RESOURCES

The Company generally has financed its working capital needs through operations. The Mumbai, Chennai, Pune (India) and other expansion programs are financed from internally generated funds. The Company's cash and cash equivalents consist primarily of certificates of deposit, corporate bonds and treasury notes. These amounts are held by various banking institutions including US-based and India-based banks.

Net cash generated by operating activities was \$60.9 million for the nine months ended September 30, 2009. This includes a reduction of \$20.2 million related to a decrease in current and non current assets. The net cash generated by operating activities was \$53.2 million for the nine months ended September 30, 2008. The number of days sales outstanding in net accounts receivable was approximately 52 days and 58 days as of September 30, 2009 and 2008, respectively. The decrease in the number of days sales outstanding in net accounts receivable was due to higher collections.

Net cash used in investing activities was \$49.3 million for the nine months ended September 30, 2009, consisting principally of \$14.9 million of capital expenditures primarily for construction/acquisition of Global Development Center at Pune, Knowledge Process Outsourcing facility at Mumbai and an additional facility in Chennai, as well as for acquisition of computers and software and communications equipment and the purchase of short term investments of \$225.6 million, largely offset by \$191.2 million from the sale of short term investments. Net cash used in investing activities was \$40.3 million for the nine months ended September 30, 2008, consisting principally \$120.0 million for the purchase of short term investments and \$30.0 million of capital expenditures consisting principally of computer hardware, software, communications equipment, infrastructure and facilities largely offset by sale of short term investments of \$109.7 million.

Net cash used in financing activities was \$7.1 million for the nine months ended September 30, 2009, consisting principally of \$7.5 million in dividends paid out, partially offset by proceeds of \$0.4 million from the issuance of shares under the Company's employee

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stock option plan exercised during the nine months. Net cash used in financing activities was \$7.2 million for the nine months ended September 30, 2008, consisting principally of \$7.5 million in dividends paid out, partially offset by \$0.3 million proceeds from the issuance of shares under the Company's employee stock option plan and tax benefit on stock options exercised during the nine months.

The Company has a line of credit with JP Morgan Chase Bank NA, which provides for borrowings up to \$20.0 million. The line of credit expires on August 31, 2010. The interest shall be paid to the Bank on the outstanding and unpaid principal amount of each CB Floating Rate advance at the CB Floating Rate plus the applicable margin and each LIBOR rate advance at the adjusted LIBOR rate. There were no outstanding borrowings at September 30, 2009 or December 31, 2008.

The Company believes that the combination of present cash balances and future operating cash flows will be sufficient to meet the Company's currently anticipated cash requirements for at least the next 12 months.

CRITICAL ACCOUNTING POLICIES

We believe the following critical accounting policies, among others, involve the more significant judgments and estimates used in the preparation of our consolidated financial statements. The Company has discussed this critical accounting policy and the estimates with the Audit Committee of the Board of Directors.

Revenue Recognition. Revenue recognition is the most significant accounting policy for the Company. The Company recognizes revenue from time and material contracts as services are performed. During the three months ended September 30, 2009 and 2008 revenues from time and material contracts constituted 55% and 62% of total revenues, respectively. Revenue from fixed-price, application management, maintenance and support engagements is recognized as earned, which generally results in straight-line revenue recognition as services are performed continuously over the term of the engagement. During the three months ended September 30, 2009 and 2008, revenues from fixed price application management and support engagements constituted 36% and 29% of total revenues, respectively.

Revenue on fixed price development projects is measured using the proportional performance method of accounting. Performance is generally measured based upon the efforts incurred to date in relation to the total estimated efforts required through the completion of the contract. The Company monitors estimates of total contract revenues and cost on a routine basis throughout the delivery period. The cumulative impact of any change in estimates of the contract revenues or costs is reflected in the period in which the change becomes known. In the event that a loss is anticipated on a particular contract, provision is made for the estimated loss. The Company issues invoices related to fixed price contracts based on either the achievement of milestones during a project or other contractual terms. Differences between the timing of billings and the recognition of revenue based upon the proportional performance method of accounting are recorded as revenue earned in excess of billings or deferred revenue in the accompanying financial statements. During the three months ended September 30, 2009 and 2008, revenues from fixed price development contracts constituted 9% and 9% of total revenues, respectively.

Significant Accounting Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses for the reporting period. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty. The Company bases its estimates and judgments on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

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Revenue Recognition. The use of the proportional performance method of accounting requires that the Company make estimates about its future efforts and costs relative to its fixed price contracts. While the Company has procedures in place to monitor the estimates throughout the performance period, such estimates are subject to change as each contract progresses. The cumulative impact of any such changes is reflected in the period in which the change becomes known.

Allowance for Doubtful Accounts. The Company records an allowance for doubtful accounts based on a specific review of aged receivables. The provision for the allowance for doubtful accounts is recorded in selling, general and administrative expenses. These estimates are based on our assessment of the probable collection from specific client accounts, the aging of the accounts receivable, analysis of credit data, bad debt write-offs, and other known factors.

Income Taxes Estimates of Effective Tax Rates and Reserves for Tax Contingencies. The Company records provisions for income taxes based on enacted tax laws and rates in the various taxing jurisdictions in which it operates. In determining the tax provisions, the Company has provided for tax contingencies based on FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48) and on the Company's assessment of future regulatory reviews of filed tax returns. Such reserves, which are recorded in income taxes payable, are based on FIN 48 interpretation and on management's estimates and accordingly are subject to revision based on additional information. The provision no longer required for any particular tax year, is credited to the current period's income tax expenses.

Accruals for Legal Expenses and Exposures. The Company estimates the costs associated with known legal exposures and their related legal expenses and accrues reserves for either the probable liability, if that amount can be reasonably estimated, or otherwise the lower end of an estimated range of potential liability.

Undistributed earnings of foreign subsidiaries. The Company intends to use accumulated and future earnings of foreign subsidiaries to expand operations outside the United States and accordingly undistributed earnings of foreign subsidiaries are considered to be indefinitely reinvested outside the United States and no provision for U. S. federal and state income tax or applicable dividend distribution tax has been provided thereon.

Table of Contents**FORWARD LOOKING STATEMENTS**

Certain information and statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this report, including the allowance for doubtful accounts, contingencies and litigation, potential tax liabilities, interest rate or foreign currency risks, and projections regarding our liquidity and capital resources, could be construed as forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements containing words such as "could," "expects," "may," "anticipates," "believes," "estimates," "plans," and "intends." In addition, the Company or persons acting on its behalf may, from time to time, publish other forward looking statements. Such forward looking statements are based on management's estimates, assumptions and projections and are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in the forward looking statements. For a detailed discussion of certain risks associated with the Company's business that could cause future results to materially differ from recent results or those projected in any forward-looking statements, see Item 1A. Risk Factors in this Form 10-Q.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2008, the FASB issued FSP FAS 132(R)-1 Employers' Disclosures about Postretirement Benefit Plan Assets. This FASB Staff Position (FSP) amends FASB Statement No. 132 (revised 2003) - Employers' Disclosures about Pensions and Other Postretirement Benefits, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. It prescribes additional disclosures pertaining to investment policies and strategies, categories of plan assets, fair value measurements of plan assets and significant concentrations of risk in plan assets. The disclosures about plan assets required by this FSP shall be provided for fiscal years ending after December 15, 2009. We are in the process of evaluating the impact, if any that this FSP will have on our disclosures.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events, which establishes general standards for accounting for and disclosures of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The pronouncement requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, whether that date represents the date the financial statements were issued or were available to be issued. SFAS 165 is effective with interim and annual financial periods ending after June 15, 2009, and accordingly, we adopted this Standard during the second quarter of 2009.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140 (SFAS 166). SFAS 166 amends the derecognition accounting and disclosure guidance relating to SFAS 140. SFAS 166 eliminates the exemption from consolidation for qualifying special-purpose entities (QSPEs), it also requires a transferor to evaluate all existing QSPEs to determine whether it must be consolidated in accordance with SFAS 167. SFAS 166 is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009. The Company is currently evaluating the impact, if any, SFAS No. 166 will have on the Company's financial position, results of operations and liquidity and its related disclosures.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167), which amends the consolidation guidance applicable to variable interest entities. The amendments to the consolidation guidance affect all entities currently within the scope of FIN 46(R), as well as QSPEs that are currently excluded from the scope of FIN 46(R). SFAS 167 is effective as of the beginning of the first fiscal year that begins after November 15, 2009. The Company is currently evaluating the impact, if any, SFAS No. 167 will have on the Company's financial position, results of operations and liquidity and its related disclosures.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168 The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles- a replacement of FASB Statement No. 162 (SFAS

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168). SFAS 168 establishes the FASB Accounting Standards Codification as the single source of authoritative US generally accepted accounting principles recognized by the FASB to be applied to nongovernmental entities. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of SFAS 168 will not have an impact on the Company's financial position, results of operations or cash flows.

In August 2009, the FASB issued Accounting Standards Update 2009-05, Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value (ASU 2009-05). ASU 2009-05 provides clarification in measuring the fair value of a liability. ASU 2009-05 is effective beginning October 1, 2009. We currently do not expect ASU 2009-05 to have a significant impact on our financial statements.

In September 2009, the FASB issued Accounting Standard Update 2009-12, Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2009-12). ASU 2009-12 clarifies the use of net asset value in determining fair value of an investment and requires certain disclosures pertaining to those investments. ASU 2009-12 is effective for interim and annual periods ending after December 31, 2009. We are evaluating any potential impact on our financial statements.

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force (ASU 2009-13). ASU 2009-13 amends the criteria for revenue recognition of multi-deliverable arrangements and expands the required disclosures of those arrangements. ASU 2009-13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We are evaluating any potential impact on our financial statements.

Table of Contents**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

The Company is exposed to the impact of interest rate changes and foreign currency fluctuations.

Interest Rate Risk

The Company considers investments purchased with an original maturity of less than three months at date of purchase to be cash equivalents. The following table summarizes the Company's cash and cash equivalents and short term investments:

ASSETS	September 30, 2009	December 31, 2008
	<i>(in thousands)</i>	
Cash and cash equivalents	\$ 70,860	\$ 65,031
Short term investments	104,026	67,293
Total	\$ 174,886	\$ 132,324

The Company's exposure to market rate risk for changes in interest rates relates primarily to its investment portfolio. The Company does not use derivative financial instruments in its investment portfolio. The Company's investments are in high-quality Indian Mutual Funds and, by policy, limit the amount of credit exposure to any one issuer. At any time, changes in interest rates could have a material impact on interest earnings for our investment portfolio. The Company strives to protect and preserve our invested funds by limiting default, market and reinvestment risk. Investments in interest earning instruments carry a degree of interest rate risk. Floating rate securities may produce less income than expected if there is a decline in interest rates. Due in part to these factors, the Company's future investment income may fall short of expectations, or the Company may suffer a loss in principal if the Company is forced to sell securities, which have declined in market value due to changes in interest rates as stated above.

Foreign Currency Risk

The Company's sales are primarily sourced in the United States of America and its subsidiary in the United Kingdom and are mostly denominated in U.S. dollars or UK pounds, respectively. Its foreign subsidiaries incur most of their expenses in the local currency. Accordingly, all foreign subsidiaries use the local currency as their functional currency. The Company's business is subject to risks typical of an international business, including, but not limited to differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, the Company's future results could be materially adversely impacted by changes in these or other factors. The risk is partially mitigated as the Company has sufficient resources in the respective local currencies to meet immediate requirements. The Company is also exposed to foreign exchange rate fluctuations as the financial results of foreign subsidiaries are translated into U.S. dollars in consolidation. As exchange rates vary, these results, when translated, may vary from expectations.

During the three months ended September 30, 2009, the Indian rupee has depreciated against the U.S. dollar by 0.6% as compared to the three months ended June 30, 2009. This rupee depreciation favourably impacted the Company's gross margin by 12 basis points, operating income by 19 basis points and net income by 18 basis points, each as a percentage of revenue. The Indian rupee denominated cost of revenues and selling, general and administrative expense was 44% and 68% of the expenses, respectively.

Although the Company cannot predict future movement in interest rates or fluctuations in foreign currency rates, the Company does not currently anticipate that interest rate risk or foreign currency risk will have a significant impact. In order to limit the exposure to interest rate fluctuations, the Company entered into foreign exchange forward contracts where the counter party is a bank during the three months ended September 30, 2009, but these contracts do not have a material impact on the financial statements.

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During the quarter ended September 30, 2009, the Company entered into foreign exchange forward contracts to hedge part of its revenues where the counter party is a bank. The Company considers the risks of non-performance by the counter party as not material. Aggregate contracted principal amounts of contracts outstanding amounted to \$38.0 million as of September 30, 2009. The outstanding foreign exchange forward contracts as of September 30, 2009 mature in three months. The fair value of the foreign exchange forward contracts of \$0.69 million is reflected in other current assets in the balance sheet of the Company as at September 30, 2009. Net Gains/(losses) on foreign exchange forward and options contracts are included under the heading Other Income (Expense) in the statement of income and amounted to \$0.58 million and \$0.05 million for the three and nine months ended September 30, 2009, respectively.

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ITEM 4. CONTROLS AND PROCEDURES

The company's management evaluated, with the participation of the Company's principle executive officers (the Chairman of the Board, Chief Executive Officer and Chief Financial Officer), the effectiveness of the company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the principal executive officers have concluded that the company's disclosure controls and procedures were effective as of the end of the period covered by this report. There has been no change in the company's internal control over financial reporting that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

While the Company is a party to ordinary routine litigation incidental to the business, the Company is not currently a party to any material legal proceeding or governmental investigation.

Item 1A. Risk Factors.

The following factors should be considered carefully when evaluating our business.

The Company's business could be materially adversely affected if one of the Company's significant clients terminates its engagement of the Company or if there is a downturn in one of the industries the Company serves.

The Company has in the past derived, and believes will continue to derive, a significant portion of its revenues from a limited number of large, corporate clients. The Company's ten largest clients generated approximately 74.2% and 70.3% of the Company's total revenues for the period ended September 30, 2009 and 2008 respectively. The Company's largest client is State Street Bank which generated approximately 20.4% and 19.5% of the Company's total revenues for the period ended September 30, 2009 and 2008, respectively, for both KPO and IT services. The Company's second largest client for the period ended September 30, 2009 and 2008 was American Express, which generated approximately 20.0% and 19.3% of the Company's total revenues for the period ended September 30, 2009 and 2008 respectively. The Company expects to continue to derive a significant portion of the Company's revenues from State Street Bank and American Express. Failure to meet a client's expectations could result in cancellation or non-renewal of the Company's engagement and could damage the Company's reputation and adversely affect its ability to attract new business. Many of the Company's contracts, including all of the Company's contracts with its ten largest clients, are terminable by the client with limited notice to the company and without compensation beyond payment for the professional services rendered through the date of termination. An unanticipated termination of a significant engagement could result in the loss of substantial anticipated revenues. The loss of any significant client or engagement could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company also has derived, and expects to continue to derive, a significant portion of its revenues from clients in certain industries, including the financial services, insurance and healthcare industries. Clients in the financial services industry generated approximately 56% and 54% of the Company's revenues for the period ended September 30, 2009 and 2008, respectively. A downturn in the financial services industry or other industries from which the Company derive significant revenues could result in less revenue from current and potential clients in such industry and could have a material adverse effect on the Company's business, results of operations and financial condition.

In addition, the Company's KPO services to State Street Bank and two other clients for the year are provided through a joint venture between the Company and an affiliate of State Street Bank. Sales of KPO services only to these three clients represented approximately 18% and 16.1% of the Company's total revenues for the period ended September 30, 2009 and 2008, respectively. A wholly owned subsidiary of the joint venture employs most of the KPO professionals and owns most of the assets that are used for KPO operations for these three clients. The current master agreement under which the Company is able to provide KPO services to these three clients appoints the Company as an authorized provider but does not require that the clients use the Company for KPO services. KPO services are ordered through separate work orders as may be agreed to by the clients and the Company from time to time. The master agreement is terminable on short notice, has no minimum volume commitments and has an initial expiration date in February 2012 with the ability to extend by mutual consent for up to three additional one year terms. Commencing in February 2010, the State Street Bank affiliate through a separate shareholders agreement has the right to purchase the Company's interest in the joint venture at an agreed upon formula price. The exercise of this purchase right would have the effect of terminating the Company's

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ability to provide KPO services to these three clients and transferring some related KPO professionals and assets to the State Street Bank affiliate. The State Street Bank affiliate exercise of the purchase right under the shareholders agreement could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company has been discussing for several months with our joint venture partner possible modification of the joint venture and the terms and conditions of the master agreement and the shareholders agreement, including but not limited to an extension of the master agreement, modification of the option to purchase the joint venture under the shareholders agreement, volume commitments and economics, as well as other terms and conditions. While discussions continue, there can be no assurance that an agreement to modify the joint venture will be reached. A date by which the current discussions will be finalized or terminated cannot be determined at this time. Any agreement to modify the joint venture and the terms and conditions upon which KPO services may be provided by the joint venture could have a material adverse effect on the Company's business, results of operations and financial condition depending on the terms of any such an agreement. Failure to reach an agreement does not affect the current KPO services or the current KPO master agreement which as stated above is terminable on short notice, has no minimum volume commitments and has an initial expiration date in February 2012 with the ability to extend by mutual consent for up to three additional one year terms.

Other than as set forth above, there have been no material changes in the Company's risk factors as disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2008, and the Company's quarterly report on Form 10-Q for the periods ended March 31, 2009 and June 30, 2009.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

The transition of responsibilities from the past Chairman/Chief Executive Officer to the current Chief Executive Officer/President is currently underway. Therefore in accordance with Rule 13a-14(a)/Rule 15d-14(a) the Chairman will also be signing a 302 certification and 906 certification.

Exhibits

Exhibit No.	Description
10	Credit Agreement, dated August 3, 2009, between JPMorgan Chase Bank, N.A. and the Company.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
31.3	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
32	Section 1350 Certification of Principal Executive Officers and Principal Financial Officer.

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SIGNATURES

Pursuant to the requirements 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.

SYNTEL, INC.

Date : November 06, 2009

/s/ KESHAV R. MURUGESH
Keshav R. Muruges,
Chief Executive Officer and President

Date : November 06, 2009

/s/ ARVIND GODBOLE
Arvind Godbole,
Chief Financial Officer &
Chief Information Security Officer

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31.3	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
32	Section 1350 Certification of Principal Executive Officers and Principal Financial Officer.