SYNTEL INC
Form 10-Q
November 06, 2007
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

**(Mark One)**

**x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended September 30, 2007**

**or**

**¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the transition period from ______ to ______**

**Commission file number 000-22903**

# SYNTEL, INC.

**(Exact Name of Registrant as Specified in Its Charter)**

| **Michigan** | **38-2312018** |
|---|---|
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(IRS Employer Identification No.)** |
| **525 E. Big Beaver Road, Suite 300, Troy, Michigan** | **48083** |
| **(Address of Principal Executive Offices)** | **(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 x No ¨

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

Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨

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

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: 41,429,144 shares issued and outstanding as of October 29, 2007.

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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 SEPTEMBER 30, | | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Net revenues | $ 87,885 | $ 69,217 | $ 243,672 | $ 197,123 |
| Cost of revenues | 52,887 | 42,635 | 148,486 | 123,267 |
| Gross profit | **34,998** | **26,582** | **95,186** | **73,856** |
| Selling, general and administrative expenses | 18,333 | 13,056 | 47,431 | 35,299 |
| Income from operations | 16,665 | 13,526 | 47,755 | 38,557 |
| Other income, principally interest | 1,659 | 1,298 | 4,328 | 3,525 |
| Income before income taxes | 18,324 | 14,824 | 52,083 | 42,082 |
| Income tax expense | 11 | 293 | 5,131 | 4,443 |
| Net income | **$ 18,313** | **$ 14,531** | **$ 46,952** | **$ 37,639** |
| Dividend per share | $ 0.06 | $ 1.31 | $ 0.18 | $ 1.43 |
| EARNINGS PER SHARE: | | | | |
| Basic | $ 0.45 | $ 0.36 | $ 1.14 | $ 0.92 |
| Diluted | $ 0.44 | $ 0.35 | $ 1.14 | $ 0.92 |
| Weighted average common shares outstanding: | | | | |
| Basic | 41,100 | 40,865 | 41,036 | 40,783 |
| Diluted | 41,256 | 41,123 | 41,253 | 41,038 |

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, 2007 | December 31, 2006 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 51,494 | $ 51,555 |
| Short term investments | 41,525 | 42,319 |
| Accounts receivable, net of allowance for doubtful accounts of $309 and $2,828 at September 30, 2007 and December 31, 2006, respectively | 59,117 | 33,706 |
| Revenue earned in excess of billings | 12,027 | 11,947 |
| Deferred income taxes and other current assets | 22,467 | 13,983 |
| Total current assets | 186,630 | 153,510 |
| Property and equipment | 99,468 | 69,672 |
| Less accumulated depreciation and amortization | 41,059 | 31,358 |
| Property and equipment, net | 58,409 | 38,314 |
| Goodwill | 906 | 906 |
| Deferred income taxes and other non current assets | 8,062 | 4,959 |
| **TOTAL ASSETS** | **$ 254,007** | **$ 197,689** |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable | $ 5,976 | $ 7,559 |
| Accrued payroll and related costs | 24,342 | 20,034 |
| Income taxes payable | 6,437 | 2,732 |
| Accrued liabilities | 11,975 | 9,244 |
| Deferred revenue | 4,584 | 5,960 |
| Dividends payable | 2,658 | 2,418 |
| Total current liabilities | **55,972** | **47,947** |
| **SHAREHOLDERS EQUITY** | | |
| Total shareholders equity | 198,035 | 149,742 |
| **TOTAL LIABILITIES AND SHAREHOLDERS EQUITY** | **$ 254,007** | **$ 197,689** |

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 | Foreign Currency Translation Adjustment | |
| **Balance, January 1, 2007** | **40,915** | **$ 1** | **299** | **$ 3,390** | **$ 63,373** | **$ 79,299** | **$ 2,649** | **$ 1,030** | **$ 149,742** |
| Net income | | | | | | 46,952 | | | 46,952 |
| Other comprehensive income, net of tax | | | | | | | 2,065 | 7,700 | 9,765 |
| ESPP & stock options activity | 87 | | | | 1,054 | | | | 1,054 |
| Restricted stock activity | 127 | | (3) | 1,164 | | | | | 1,164 |
| Cumulative effect adjustment related to FIN 48 adoption | | | | | | (2,984) | | | (2,984) |
| Dividends | | | | | | (7,658) | | | (7,658) |
| **Balance, September 30, 2007** | **41,129** | **$ 1** | **296** | **$ 4,554** | **$ 64,427** | **$ 115,609** | **$ 4,714** | **$ 8,730** | **$ 198,035** |

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

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**SYNTEL, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(UNAUDITED)**

**(IN THOUSANDS)**

| | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|---|---|
| | **2007** | **2006** |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 46,952 | $ 37,639 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 7,479 | 4,302 |
| Realized gains on sales of short term investments | (361) | (284) |
| Deferred income taxes | 275 | 1,085 |
| Compensation expense related to restricted stock | 1,205 | 1,366 |
| Share based compensation expense | 157 | 528 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and revenue earned in excess of billings, net | (20,491) | (11,965) |
| Other assets | (11,310) | (4,709) |
| Accrued payroll and other liabilities | 3,545 | (6,435) |
| Deferred revenue | (38) | (1,087) |
| Net cash provided by operating activities | 27,413 | 20,440 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Property and equipment expenditures | (22,501) | (9,351) |
| Purchase of short term investments: | | |
| Investments in mutual funds | (64,682) | (39,993) |
| Investments in term deposits with banks | (31,873) | (56,953) |
| Proceeds from sales of short term investments: | | |
| Proceeds from sales of mutual funds | 80,834 | 42,893 |
| Maturities of term deposits with banks | 20,700 | 36,256 |
| Net cash used in investing activities | (17,522) | (27,148) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net proceeds from issuance of common stock | 689 | 1,604 |
| Tax benefit on stock options exercised | 208 | 260 |
| Dividends paid | (7,460) | (58,632) |
| Net cash used in financing activities | (6,563) | (56,768) |
| Effect of foreign currency exchange rate changes on cash | (3,389) | 1,298 |
| Change in cash and cash equivalents | (61) | (62,178) |
| Cash and cash equivalents, beginning of period | $ 51,555 | $ 99,390 |
| Cash and cash equivalents, end of period | $ 51,494 | $ 37,212 |
| Non cash investing and financing activities: | | |

| | | |
|---|---|---|
| Cash dividends declared but unpaid | $ 2,658 | $ 2,442 |
| Cash paid for income taxes | 6,772 | 10,417 |

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, 2007, the results of their operations for the three months and nine months ended September 30, 2007 and 2006, and cash flows for the nine months ended September 30, 2007 and 2006. The year-end condensed consolidated balance sheet as of December 31, 2006 was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States. 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, 2006.

Operating results for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

**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. ( Syntel Singapore ), a Singapore limited liability company;

Syntel Europe, Limited. ( Syntel U.K. ), a United Kingdom limited liability company;

Syntel Canada Inc. ( Syntel Canada ), an Ontario limited liability company;

Syntel Deutschland GmbH ( Syntel Germany ), a German limited liability company;

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

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

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

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; and

Syntel Worldwide (Mauritius) Limited ( Syntel Worldwide ), a Mauritius 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 LLC on February 1, 2005 is:

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

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The wholly owned subsidiary of SSSSML is:

Syntel Sourcing Private Limited. ( Syntel Sourcing ), an Indian limited liability company.

The wholly owned subsidiaries of Syntel Mauritius are:

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

Syntel Global Private Limited. ( Syntel Global ), an Indian limited liability company.

The wholly owned subsidiary of SSBML is:

Syntel Sterling BestShores Solutions Private Limited ( SSBSPL ), an Indian limited liability company.

The wholly owned subsidiary of Syntel U.K. is:

Intellisourcing, sarl, a limited liability company in France.

**3. USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 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**

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 123R, Share-Based Payment, utilizing the modified prospective method. SFAS No. 123R requires the recognition of 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, estimated in accordance with the provisions of SFAS No. 123R. The Company recognizes these compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. Under the modified prospective method, the provisions of SFAS No. 123R apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption, determined under the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation ( SFAS No. 123 ), are recognized in net income in the periods after the date of adoption. SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as prescribed under the prior accounting rules. This requirement reduces net operating cash flow and increases net financing cash flows in periods after adoption. Total cash flow remains unchanged from what would have been reported under the prior accounting rules.

**6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

The Company has adopted the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , as amended. 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 do not qualify for hedge accounting under SFAS No. 133, as amended. Accordingly these contracts are carried at a fair value with resulting gains or losses included in the statement of income.

During the three months ended September 30, 2007, the Company entered into foreign exchange forward contracts with a notional amount of $40.0 million and maturity dates of one to six months. These contracts do not qualify for hedge accounting treatment under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and therefore changes in market rates are reported in current period earnings. During the three months ended September 30, 2007 a portion of these contracts expired resulting in a loss of $0.1 million.

At September 30, 2007, summary information about the foreign exchange forward contracts is as follows:

| | | |
|---|---|---|
| Notional amounts | $ | 26.8 million |
| Fixed rates | 40.35 | 40.57 INR |
| Effective dates | | 07/26/07 |
| Maturity dates | 10/24/07 | 02/29/08 |
| Fair value of foreign exchange forward contracts | $ | 0.36 million |

The fair value of the foreign exchange forward contracts at September 30, 2007 is reflected in other current assets with a corresponding credit to income for the direct customer related contracts of $0.3 million and credit to the other comprehensive income for the intercompany related contracts of $0.1 million.

**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, 2007 and December 31, 2006, approximately $14.3 million and $13.9 million, respectively, are in a money market fund maintained by JP Morgan Chase Bank NA that invests in corporate bonds, treasury notes and other securities. The remaining amounts of cash and cash equivalents are invested in money market accounts with various banking and financial institutions.

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**8. COMPREHENSIVE INCOME**

Total Comprehensive Income for the three and nine months ended September 30, 2007 and 2006 is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | (In thousands) | | (In thousands) | |
| Net income | $ 18,313 | $ 14,531 | $ 46,952 | $ 37,639 |
| Other comprehensive income: | | | | |
| - Unrealized investment gain | 576 | 505 | 2,065 | 1,298 |
| - Foreign currency translation adjustments | 2,166 | 36 | 7,700 | (1,460) |
| Total comprehensive income | **$ 21,055** | **$ 15,072** | **$ 56,717** | **$ 37,477** |

**9. EARNINGS PER SHARE**

Basic and diluted earnings per share are computed in accordance with SFAS No. 128 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 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 benefits on exercise of stock options is considered as additional proceeds while computing dilutive earnings per share using the treasury stock method.

The following table sets forth the computation of earnings per share.

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Weighted Average Shares | Earnings per Share | Weighted Average Shares | Earnings per Share |
| | *(In thousands, except per share earnings)* | | | |
| Basic earnings per share | 41,100 | $ 0.45 | 40,865 | $ 0.36 |
| Potential dilutive effect of stock options outstanding | 156 | (0.01) | 258 | (0.01) |
| **Diluted earnings per share** | **41,256** | **$ 0.44** | **41,123** | **$ 0.35** |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Weighted Average Shares | Earnings per Share | Weighted Average Shares | Earnings per Share |
| | *(In thousands, except per share earnings)* | | | |
| Basic earnings per share | 41,036 | $ 1.14 | 40,783 | $ 0.92 |
| Potential dilutive effect of stock options outstanding | 217 | (0.00) | 255 | (0.00) |

| | | | | |
|---|---|---|---|---|
| **Diluted earnings per share** | **41,253** | **$ 1.14** | **41,038** | **$ 0.92** |

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**10. SEGMENT REPORTING**

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;

e-Business;

TeamSourcing; and

Business Process Outsourcing ( BPO )

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, 2007 and 2006 is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | *(in thousands)* | | *(in thousands)* | |
| Revenues: | | | | |
| Applications Outsourcing | $ 58,363 | $ 49,394 | $ 166,084 | $ 142,433 |
| e-Business | 9,875 | 9,929 | 29,920 | 27,885 |
| TeamSourcing | 4,096 | 4,235 | 11,800 | 13,460 |
| BPO | 15,551 | 5,659 | 35,868 | 13,345 |
| | 87,885 | 69,217 | 243,672 | 197,123 |
| Gross Profit: | | | | |
| Applications Outsourcing | 21,493 | 18,286 | 60,462 | 53,592 |
| e-Business | 3,792 | 3,149 | 12,072 | 7,336 |
| TeamSourcing | 1,736 | 1,760 | 4,616 | 4,937 |
| BPO | 7,977 | 3,387 | 18,036 | 7,991 |
| | 34,998 | 26,582 | 95,186 | 73,856 |
| Selling, general and administrative expenses | 18,333 | 13,056 | 47,431 | 35,299 |
| Income from operations | $ 16,665 | $ 13,526 | $ 47,755 | $ 38,557 |

During the three and nine months ended September 30, 2007 and 2006, American Express Corp. and State Street Bank contributed revenues in excess of 10% of total consolidated revenues. During the three months ended September 30, 2007, revenue from American Express Corp. and State Street Bank was $15.8 million and $15.5 million, respectively, contributing approximately 18.0% and 17.6%, respectively, of total consolidated revenues. The corresponding revenues for the three months ended September 30, 2006 from American Express Corp. and State Street Bank was $11.7 million and $7.7 million, respectively, contributing approximately 16.9% and 11.1%, respectively, of total consolidated revenues. During the nine months ended September 30, 2007, revenue from American Express Corp. and State Street Bank was $45.1 million and $37.9 million, respectively, contributing approximately 18.5% and 15.6%, respectively, of total consolidated revenues. The corresponding revenues for the nine months ended September 30, 2006 from American Express Corp. and State Street Bank was $35.6 million and $18.9

million, respectively, contributing approximately 18.0% and 9.6%, respectively of total consolidated revenues. At September 30, 2007 and December 31, 2006 accounts receivable from American Express Corp were $6.3 million and $2.7 million, respectively. Accounts receivable from State Street Bank were $10.1 million and $3.9 million at September 30, 2007 and December 31, 2006, respectively.

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**11. GEOGRAPHIC INFORMATION**

The Company s customers are primarily located in the United States. Net revenues and net income (loss) were attributed to each geographic location as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | *(in thousands)* | | *(in thousands)* | |
| Net Revenues: | | | | |
| North America, primarily United States | $ 77,391 | $ 65,967 | $ 229,184 | $ 188,558 |
| India | 41,437 | 34,641 | 115,508 | 98,252 |
| UK | 4,264 | 3,186 | 10,659 | 8,341 |
| Far East, primarily Singapore | 15 | 204 | 131 | 690 |
| Germany | 418 | 85 | 1,223 | 538 |
| Mauritius | 5,347 | 1,171 | 11,047 | 2,417 |
| Inter-company revenue elimination (primarily India) | (40,987) | (36,037) | (124,080) | (101,673) |
| **Total revenue** | **$ 87,885** | **$ 69,217** | **$ 243,672** | **$ 197,123** |
| Net Income/(Loss): | | | | |
| North America, primarily United States | $ 9,106 | $ 5,369 | $ 18,329 | $ 10,775 |
| India | 8,194 | 9,449 | 26,698 | 26,340 |
| UK | 424 | 245 | 1,321 | 1,058 |
| Far East, primarily Singapore | (59) | 3 | (172) | 13 |
| Germany | 95 | (130) | 261 | (155) |
| Mauritius | 553 | (405) | 515 | (392) |
| **Total net income** | **$ 18,313** | **$ 14,531** | **$ 46,952** | **$ 37,639** |

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**12. INCOME TAXES**

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, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Statutory provision | 35.0% | 35.0% | 35.0% | 35.0% |
| State taxes, net of federal benefit | 0.8% | 1.1% | 0.8% | 1.0% |
| Tax-free investment income | | (0.8)% | | (0.7)% |
| Foreign effective tax rates different from US statutory rate | (18.2)% | (19.9)% | (18.5)% | (20.0)% |
| Tax Reserve | (17.5)% | (13.4)% | (5.9)% | (4.7)% |
| Others, net | | | (1.5)% | |
| **Effective Income Tax Rate** | **0.1%** | **2.0%** | **9.9%** | **10.6%** |

On July 13, 2006, the Financial Accounting Standards Board ( FASB ) released FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes ( FIN 48 ). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires recognition in the financial statements of the impact of a tax position, if that position is more likely than not of being sustained on examination, based on the technical merits of the position. The tax position is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Adoption of FIN 48 by the Company was required beginning January 1, 2007 and is to be applied to all open tax years as of the effective date.

The Company adopted the provisions of FIN 48 on January 1, 2007 and initially recognized a FIN 48 liability in the financial statements by debiting retained earnings, when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Subsequently, at each balance sheet date, the positions are required to be reviewed and any changes in the liability are required to be recognized through the income statement for that period.

As a result of the implementation of FIN 48, the Company initially recognized a $2.98 million increase in the liability for unrecognized tax benefits, for various international jurisdictions where Syntel does business and files tax returns, which was accounted for as a reduction to the January 1, 2007, balance of retained earnings. The aforesaid amount is comprised of $2.36 million and $0.62 million towards tax and interest liability, respectively.

The Company recognizes interest and penalties related to unrecognized tax benefits in normal income tax expense. For the quarter ended September 30, 2007, the Company recognized $0.08 million of expense, which is comprised of $0.02 million and $0.06 million of tax and interest expense, respectively. For the nine months ended September 30, 2007, the Company recognized $0.19 million of expense, which is comprised of $0.05 million and $0.14 million of tax and interest expense, respectively.

The tax years 2003 through 2006 remain open to examination by the major taxing jurisdictions to which the Company is subject. 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.

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 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

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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 expense.

During the three months ended September 30, 2007 and 2006, the effective income tax rates were 0.1% and 2.0%, respectively. The tax rate for the three months ended September 30, 2007 is impacted by an additional tax reserve of $0.07 million, reversal of tax reserve of $3.1 million along with the consequencial reversal of corresponding interest provision of $0.1 million and reversal of excess tax provision of $0.27 million. During the nine months ended September 30, 2007 and 2006, the effective income tax rates were 9.9% and 10.6%, respectively. The tax rate for the nine months ended September 30, 2007 is impacted by an additional tax reserve of $0.3 million, tax credits related to research and development of $0.4 million, reversal of tax reserve of $3.1 million along with the consequencial reversal of corresponding interest provision of $0.1 million, and reversal of $1.0 million towards excess tax provision.

Syntel India has not provided for disputed Indian income tax liabilities amounting to $1.27 million for the financial years 1995-96 to 2001-02, after recognizing tax liabilities aggregating $1.49 million provided under FIN 48 during the quarter ended March 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 two opinions from another independent legal counsel (also a former Chief Justice of the Supreme Court of India) for the financial years 1995-96 to 1997-98 and 1999-2000 to 2001-02, which support Syntel India s position in this matter.

For the financial year 1998-99, the appeal filed by the Income tax department has been dismissed by the Income Tax Appellate Tribunal ( ITAT ) and the matter stands in favour of Syntel India. The Income tax department has recourse to file a further appeal.

A similar appeal filed by Syntel India with Commissioner of Income tax (Appeals) for the financial year 1999-2000 was however dismissed in March 2004, against which, Syntel India had filed a further appeal with the ITAT. During the current quarter, Syntel India has received a favorable order on its appeal from the ITAT. The Income tax department has a recourse to file a further appeal. Considering this fact there is no change in the tax position.

Syntel India has also received orders for appeals filed with Commissioner of Income tax (Appeals) against the demands raised in March 2004 by the Income Tax Officer for similar matters relating to the financial years 1995-96 to 1997-98 and 2000-01 to 2001-02, and has received a favorable decision for 1995-96 and for the other years partially upholding Syntel India s contention. Syntel India has filed a further appeal with the ITAT for the amounts not allowed by the Commissioner of Income tax (Appeals). The Income tax department has filed a further appeal for the amounts allowed by the Commissioner of Income tax (Appeals). The appeal for financial years 1995-96 to 1997-98 and 2000-01 was heard by the ITAT on October 10, 2007 and the order of the ITAT is awaited.

Syntel India has also not provided for other disputed Indian income tax liabilities aggregating $8.05 million for the financial years 2001-02 to 2003-04, after recognizing tax liabilities aggregating $0.03 million provided under FIN 48 during the quarter ended March 2007, against which Syntel India has filed appeals with Commissioner of Income tax (Appeals). Syntel India has obtained opinions from independent legal counsels, that support Syntel India s stand in this matter. The contention of Syntel India was partially upheld by Commissioner of Income tax (Appeals) for the financial year 2001-02. Syntel India has filed a further appeal with the ITAT in relation to the amounts not allowed by Commissioner of Income tax (Appeals). The Income tax department has also filed a further appeal against the relief granted to Syntel India by Commissioner of Income tax (Appeals). Recently, Syntel India has received an order for appeal filed with Commissioner of Income tax (Appeals) relating to financial year 2002-03, wherein the contention of Syntel India is partially upheld. Syntel India has filed a further appeal with the ITAT for the amounts not allowed by Commissioner of Income tax (Appeals). The Income tax department also has recourse to file a further appeal.

Further, Syntel India has not provided for disputed income tax liabilities aggregating to $0.09 million for various years, after recognizing tax

liabilities aggregating $0.01 million provided under FIN 48 during the quarter ended March 2007, for which Syntel India has filed the necessary appeals or petitions.

Syntel India has not recognized certain disputed tax liabilities under FIN 48 as it is more likely than not that the said tax positions in respect of which FIN 48 tax liability has not been recognized will finally be resolved in favour of Syntel India.

All the above tax positions involve complex issues and may need an extended period of time 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 financial position and results of operations.

**Fringe Benefit Tax on Stock Based Compensation:**

As per the Finance Act, 2007, effective April 1, 2007, some changes in Indian tax law were made, which will impact the Company, with respect to introduction of Fringe Benefit Tax ( FBT ) on Employee Stock Options/Restricted Options. The detailed rules were awaited. Based on the opinions of tax advisors, the Company has estimated FBT charge of $0.65 million on Employee Stock Options/Restricted Options for the three months ended September 2007.

The Sec 115WC (2) (ba) of the Indian Income Tax Act specifies that valuation of employee stock options for the purpose of FBT will be as per the method prescribed by the Central Board of Direct Taxes ( the Board ). The Board has introduced a new rule on 23rd October 2007 for valuation of employee stock options for the purpose of FBT. This rule does not cover the stock options pertaining to shares of a company not incorporated in India. While the Board may clarify this in future, currently it is possible to argue that no FBT is payable on stock options issued by a company incorporated outside India. The Company is examining the validity of this argument with tax advisors and if the Company is advised that such argument is valid, the aforesaid FBT charge of $0.65 million may be reversed in future.

**Tax credit**

During the nine months ended September 30, 2007, the provision for income tax was reduced by research and development tax credits of $0.42 million.

**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.

The American Jobs Creation Act of 2004 provided a special one-time favorable effective federal tax rate for U.S.-based organizations. The Company repatriated cash dividends of $61.0 million during 2005 out of the retained earnings of its controlled foreign subsidiary, Syntel India, to the U.S. in accordance with the Act. The Company recorded a tax charge of approximately $12.3 million, including U.S. Federal and state taxes and the Indian dividend distribution tax under the Indian Income Tax laws, during the fourth quarter of 2005. Proceeds from these extraordinary dividends are required to be invested in the United States for specific purposes permitted under Act pursuant to an approved written domestic reinvestment plan. As of September 30, 2007, the Company had fully invested proceeds from these cash dividends towards permitted investments under the Act.

Estimated additional taxes which would be due, if undistributed earnings were to be distributed, approximate $74.1 million at September 30, 2007.

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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 are 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, the exercise price was less than the fair value of the Company s stock on the date of grant and, accordingly, compensation expense is being 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 shares issued upon the exercise of the options are generally new share issues. In some instances the shares are issued out of treasury stock purchased from the market.

Beginning January 1, 2006, the Company accounts for share-based compensation under the provisions of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, ( SFAS 123(R) ).

SFAS 123(R) requires companies to estimate the 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. Prior to the adoption of SFAS 123(R), the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ( SFAS 123 ). Share-based compensation expense recognized under SFAS 123(R) for the three months ended September 30, 2007 and 2006 was $0.52 million and $0.97 million, respectively, including a charge for restricted stock. For the nine months ended September 30, 2007 and 2006, the share-based compensation expense recognized under SFAS 123(R) was $1.36 million and $1.89 million, respectively.

**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.

On different dates during the years ended December 31, 2005, 2006 and the nine months ended ended September 30, 2007, the Company issued 54,806, 16,536 and 9,464 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 year ended December 31, 2006 and the nine months ended ended September 30, 2007, the Company respectively issued another 57,500 and 66,000 shares 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.

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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 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.

Based upon the market value on the grant dates, the Company recorded $5.84 million, $0.89 million and $0.01 million during the years ended December 31, 2004, 2005 and 2006 respectively of unearned stock-based compensation and included the same as a separate component of shareholders equity, to be expensed over the service period on a straight line basis. During the three months ended September 30, 2007 and 2006 the Company expensed $0.47 million and $0.51 million, respectively as compensation on account of these stock grants. During the nine months ended September 30, 2007 and 2006, the Company reversed $0.0 million and $0.14 million, respectively, of previously recognized compensation towards forfeiture of restricted stock on account of termination of employees and expensed $1.16 million and $0.94 million, respectively, as compensation on account of these 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, 2007 and 2006, the Company recorded $0.02 million and $0.39 million, respectively, and during the nine months ended September 30, 2007 and 2006, the company recorded $0.04 million and $0.41 million, respectively, as compensation cost for dividends paid on shares of unvested restricted stock.

For the restricted stock issued during the years ended December 31, 2006 and 2005 and nine months ended September 30, 2007, the dividend is accrued and paid subject to the same restriction as the restriction on transferability.

***Impact of FAS 123(R)***

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, 2007 and 2006 was as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Cost of revenues | $ 221 | $ 396 | $ 590 | $ 783 |
| Selling, general and administrative expenses | 300 | 576 | 772 | 1,111 |
| | $ 521 | $ 972 | $ 1,362 | $ 1,894 |

Cash received from option exercises under all share-based payment arrangements for the three months ended September 30, 2007 and 2006, was $0.12 million and $0.56 million, respectively, and for the nine months ended September 30, 2007 and 2006, was $0.70 million and $1.60 million, respectively. New shares were issued for all options exercised during the three and nine months ended September 30, 2007. Prior to the adoption of FAS 123(R), the intrinsic value of restricted stock was recorded as unearned stock-based compensation as of December 31, 2005. Upon the adoption of FAS 123(R) in January 2006, the unearned stock-based compensation balance of approximately $3.17 million was reclassified to additional-paid-in-capital.

As of September 30, 2007, the estimated compensation cost of non-vested options (excluding restricted stock) is $0.07 million to be vested mainly over the next two years.

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***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, 2007 | 2006 |
|---|---|---|
| Assumptions: | | |
| Risk free interest rate | 4.22% | 4.53% |
| Expected life | 5.00 | 5.00 |
| Expected volatility | 63.70% | 47.81% |
| Expected dividend yield | 0.69% | 6.80% |

The Company s computation of expected volatility for the nine months ended September 30, 2007 and 2006 is based on a combination of historical volatility from exercised options on the Company s stock. Prior to 2006, the Company s computation of expected volatility was based on historical volatility. 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. 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, 2007:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Outstanding at January 1, 2007 | 208,869 | $ 13.07 | | |
| Granted | | | | |
| Exercised | 64,964 | 10.43 | | |
| Forfeited | | | | |
| Expired / Cancelled | | | | |
| **Outstanding at September 30, 2007** | **137,634** | **$ 14.53** | **4.68** | **$ 3,723** |
| **Options Exercisable at September, 30, 2007** | **125,584** | **$ 13.57** | **4.50** | **$ 3,518** |

No options were granted during the nine months ended September 30, 2007 and 2006. The aggregate intrinsic value of options exercised during the nine months ended September 30, 2007 and 2006 was $1.59 million and $1.63 million, respectively. The aggregate fair value of shares vested, during the nine months ended September 30, 2007 and 2006 was $0.20 million and $0.49 million, respectively.

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**14. PROVISION FOR UNUTILIZED LEAVE**

The gross charge for unutilized earned leave was $0.86 million and $0.59 million for the three months ended September 30, 2007 and 2006, respectively and $2.87 million and $2.23 million for the nine months ended September 30, 2007 and 2006 respectively.

The amounts accrued for unutilized earned leave are $8.58 million and $6.27 million as of September 30, 2007 and December 31, 2006, respectively, and are included within Accrued payroll and related costs .

During the three months ended June 30, 2007 Syntel Limited has changed its leave policy, resulting in a reduction of the maximum permissible accumulation of unutilized leave from 60 days to 45 days. The balance exceeding maximum permissible accumulation is compulsorily en-cashed at basic salary. Accordingly an amount of $0.31 million was paid at basic salary and $0.53 million was reversed being the difference between the basic salary and gross compensation rates.

**15. CLAIM AGAINST THE COMPANY**

During the three months ended September 30, 2007, one of the Company s subsidiary, Syntel Sourcing Private Ltd (SSPL), has received a claim of $0.83 million from a customer towards alleged lapses in the execution of certain business process transactions. SSPL had communicated to the customer that it will not settle any such claims until there is evidence on each of those claims that proper procedures have been followed in settling the claims by the operational groups, based on the rules laid down by its insurance company.

SSPL has lodged a claim with its insurance company.

Pending receipt of evidence from the customer which establishes its right to recover the claim from the insurance company, SSPL contends that the claim of the customer against SSPL arises only after and to the extent of the settlement of the insurance claim in favour of SSPL. The Company has considered this item as a contingent liability as on September 30, 2007 because the settlement amount, if any, is not probable or estimable.

**16. RECLASSIFICATION**

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

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

**RESULTS OF OPERATIONS**

***Revenues.*** The Company s revenues consist of fees derived from its Applications Outsourcing, e-Business, TeamSourcing and Business Process Outsourcing ( BPO ) business segments. Net revenues in the three months ended September 30, 2007 increased to $87.9 million from $69.2 million in the three months ended September 30, 2006, representing an 27.0% 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 customers leading to continued growth in business. Further, continued focus on execution and investments in new offerings such as our Testing, Center of Excellence have contributed to the growth in business. The focus is to continue investments in more new offerings. Worldwide billable headcount, including personnel employed by Syntel India, Syntel Singapore, Syntel U.K., and Syntel Germany as of September 30, 2007 increased by 37.9% to 7,072 employees as compared to 5,130 employees as of September 30, 2006. 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, 2007, the Company had approximately 78.0% of its billable workforce in India as compared to 71.3% as of September 30, 2006. The Company s top five customers accounted for 55.0% of the total revenues in the three months ended September 30, 2007, up from 51.1% of its total revenues in the three months ended September 30, 2006. Moreover, the Company s top 10 customers accounted for 72.5% of the total revenues in the three months ended September 30, 2007 as compared to 70.7% in the three months ended September 30, 2006.

***Applications Outsourcing Revenues.*** Applications Outsourcing revenues increased to $58.4 million for the three months ended September 30, 2007, or 66.4% of total revenues, from $49.4 million, or 71.4% of total revenues for the three months ended September 30, 2006. The $9.0 million increase was attributable primarily to revenues from new engagements and net increase in revenues from existing projects by $32.3 million largely offset by $23.3 million in lost revenues as a result of project completion. The revenues for the nine months ended September 30, 2007 increased to $166.1 million, or 68.2% of total revenues, from $142.5 million or 72.3% of total revenues for the nine months ended September 30, 2006. The $23.6 million increase for nine months ended September 30, 2007 was attributable primarily to revenues from new engagements of $76.0 million largely offset by $52.4 million in lost revenues as a result of project completion, and net decrease in revenues from existing projects.

***Applications Outsourcing Cost of Revenues.*** 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 costs of revenues increased to 63.2% of total Applications Outsourcing revenues for the three months ended September 30, 2007, from 63.0% for the three months ended September 30, 2006. The 0.2 percentage point increase in cost of revenues, as a percent of revenues for the three months ended September 30, 2007 was attributable primarily to, an increase in cost due to increased offshore headcount and a new fringe benefit tax in India on stock based compensation, partly offset by re-insurance refund of health insurance claims under a stop loss policy. Cost of revenues for the nine months ended September 30, 2007 increased to 63.6% of total Applications Outsourcing revenues, from 62.4% for the nine months ended September 30, 2006. The 1.2 percentage point increase in cost of revenues, as a percent of revenues for the nine months ended September 30, 2007 was attributable primarily to onsite wage increases effective January 2007, offshore wage increases effective April 2007, the abovementioned new fringe benefit tax in India on stock based compensation, and rupee appreciation impact, partly offset by re-insurance refund of health insurance claims under a stop loss policy.

***e-Business Revenues.*** e-Business revenues remained unchanged at $9.9 million for the three months ended September 30, 2007, or 11.2% of total revenues, from $9.9

million, or 14.3% of total revenues for the three months ended September 30, 2006. During the quarter revenues from new engagements and net increase in revenues from existing projects was $5.9 million offset by $5.9 million in lost revenues as a result of project completion. The revenues for the nine months ended September 30, 2007 increased to $29.9 million, or 12.3% of total revenues, from $27.9 million or 14.1% of total revenues for the nine months ended September 30, 2006. The $2.0 million increase for the nine months ended September 30, 2007 was attributable principally to revenues from new engagements contributing $15.2 million, largely offset by $13.2 million in lost revenues as a result of project completion and net reduction in revenues from existing projects.

***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 decreased to 61.6% of total e-Business revenues for the three months ended September 30, 2007, from 68.3% for the three months ended September 30, 2006. The 6.7 percentage point decrease in cost of revenues as a percent of revenues for the three months ended September 30, 2007 is principally attributable to better utilization of resources during the three months ended September 30, 2007, as compared to the three months ended September 30, 2006. Cost of revenues for the nine months ended September 30, 2007 decreased to 59.7% of total e-business revenues, from 73.7% for the nine months ended September 30, 2006. The 14 percentage point decrease in cost of revenues, as a percent of revenues for the nine months ended September 30, 2007 was attributable primarily to an increase in revenue by $2.0 million for the nine months ended September 30, 2007, decreased visa filing expenses, the re-insurance refund of health insurance claims under a stop loss policy, partly offset by onsite wage increases effective January 2007, offshore wage increases effective April 2007 and the impact of rupee appreciation.

***TeamSourcing Revenues.*** TeamSourcing revenues decreased to $4.1 million for the three months ended September 30, 2007, or 4.7% of total revenues, from $4.2 million, or 6.1% of total revenues for the three months ended September 30, 2006. The $0.1 million decrease was attributable primarily to $0.9 million in lost revenues as a result of project completion, partially offset by revenues from new engagements, revenue from the SkillBay web portal, which helps clients of Syntel with their supplemental staffing requirements and a net increase in revenue from existing projects, contributing $0.8 million. The revenues for the nine months ended September 30, 2007 decreased to $11.8 million, or 4.8% of total revenues, from $13.5 million or 6.8% of total revenues for the nine months ended September 30, 2006. The $1.7 million decrease for nine months ended September 30, 2007 was attributable principally to $2.2 million in lost revenues as a result of project completion, partially offset by revenues from new engagements, revenue from the SkillBay web portal and a net increase in revenue from existing projects, contributing $0.5 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 57.6% of TeamSourcing revenues for the three months ended September 30, 2007, from 58.4% for the three months ended September 30, 2006. Cost of revenues for the nine months ended September 30, 2007 decreased to 60.9% of total TeamSourcing revenues, from 63.3% for the nine months ended September 30, 2006. Both the 0.8% and 2.4% decrease in cost of revenues, as a percent of total TeamSourcing revenues was attributable primarily to better utilisation of resources, the re-insurance refund of health insurance claims under a stop loss policy, and a decrease in visa filing fees, partly offset by onsite wage increases effective January 2007 and offshore wage increases effective April 2007.

***BPO Revenues.*** Revenues from this segment were $15.6 million or 17.7% of total revenues for the three months ended September 30, 2007 as against $5.7 million or 8.2% for the three months ended September 30, 2006. The $9.9 million increase was attributable primarily to revenues from new engagements and a net increase in revenues from existing projects. The revenues for the nine months ended

September 30, 2007 increased to $35.9 million, or 14.7% of the total revenues, from $13.3 million, or 6.8% of the total revenues for the nine months ended September 30, 2006. The $22.6 million increase was attributable primarily to revenues from new engagements and net a increase in revenues from existing projects.

***BPO Cost of Revenues.*** BPO 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, 2007 increased to 48.7% of BPO revenues from 40.1% for the three months ended September 30, 2006. Cost of revenues for the nine months ended September 30, 2007 increased to 49.7% of BPO revenues, from 40.1% for the nine months ended September 30, 2006. Both the 8.6% and 9.6% increase in cost of revenues, as a percent of total BPO revenues, was attributable primarily to wage inflation, the impact of rupee appreciation and increased billable headcount due to increased operations.

***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 costs for the three months ended September 30, 2007 were $18.3 million or 20.9% of total revenues, compared to $13.1 million or 18.9% of total revenues for the three months ended September 30, 2006.

The 2.0 percentage point increase is primarily due to foreign exchange loss and increases in certain costs in the three months ended September 30, 2007 as against the three months ended September 30, 2006, partially offset by an increase in revenue that has resulted in an approximately 5.4 percentage point decrease. Selling, general and administrative costs for the three months ended September 30, 2007 include foreign exchange loss of $0.4 million and billable pass through expenses of $0.5 million, reflecting a 1.1 percentage point increase in selling, general, and administrative expenses as a percentage of revenue. Cost increases include compensation of $1.2 million inclusive of the fringe benefit tax in India on stock based compensation of $0.3 million, depreciation of $1.1 million, rent of $1.1 million towards the additional new facilities at Mumbai, Pune and Chennai in India, telecommunication expenses of $0.3 million, office expenses of $1.3 million and professional expenses of $0.1 million, partially offset by a decrease in travel and relocation expenses by $0.4 million, which has resulted in an approximately 6.3 percentage point increase.

Selling, general, and administrative costs for the nine months ended September 30, 2007 were $47.4 million or 19.5% of total revenues, compared to $35.3 million or 17.9% of total revenues for the nine months ended September 30, 2006.

Selling, general and administrative costs for the nine months ended September 30, 2006 include a one time legal expense related to settlement fees of $0.6 million, provision for doubtful accounts receivable of $0.1 million, provision for a claim payable to a customer of $0.4 million, cost related to a special dividend of $1.25 per share on restricted stock of $0.2 million and write-offs of assets of $0.2 million

In addition to the above-described items, the 1.6 percentage point increase as compared with the nine months ended September 30, 2006 is primarily due to foreign exchange loss and increases in certain costs in the nine months ended September 30, 2007 as against the nine months ended September 30, 2006 partially offset by an increase in revenue that has resulted in an approximately 4.4 percentage point decrease. Selling, general and administrative costs for the three months ended September 30, 2007 include foreign exchange loss of $1.5 million and billable pass through expenses of $0.5 million, impacting 0.8 percentage point increase in selling, general, and administrative expenses as a percentage of revenue. Cost increases include increase in compensation cost of $2.3 million inclusive of the fringe benefit tax in India on stock based compensation of $0.3 million, depreciation of $2.9 million, rent of $1.9 million towards the additional new facilities at Mumbai, Pune and Chennai in India, telecommunication expenses of $0.5 million, office expenses of $3.1 million, marketing expenses of $0.2 million and professional expenses of $0.1 million partially offset by a decrease in travel and relocation expenses of $0.7 million, which has resulted in an approximately 5.2 percentage point increase.

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*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 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.

During the three months ended September 30, 2007 and 2006, the effective income tax rates were 0.1% and 2.0%, respectively. The tax rate for the three months ended September 30, 2007 is impacted by an additional tax reserve of $0.07 million, reversal of tax reserve of $3.1 million alongwith the consequencial reversal of corresponding interest provision of $0.1 million and reversal of excess tax provision of $0.27 million. During the nine months ended September 30, 2007 and 2006, the effective income tax rates were 9.9% and 10.6%, respectively. The tax rate for the nine months ended September 30, 2007 is impacted by an additional tax reserve of $0.3 million, tax credits related to research and development of $0.4 million, reversal of tax reserve of $3.1 million alongwith the consequencial reversal of corresponding interest provision of $0.1 million, and reversal of $1.0 million towards excess tax provision.

**FINANCIAL POSITION**

***Cash and Cash Equivalents:*** Cash and Cash equivalents decreased from $51.6 million at December 31, 2006 to $51.5 million at September 30, 2007 primarily due to decreased collections during the nine months ended September 30, 2007.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company generally has financed its working capital needs through operations. 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 $27.4 million for the nine months ended September 30, 2007. This includes a reduction of $20.5 million related to an increase in outstanding accounts receivable. The net cash generated by operating activities was $20.4 million for the nine months ended September 30, 2006. The number of days sales outstanding in net accounts receivable was approximately 73 days and 64 days as of September 30, 2007 and 2006, respectively. The increase in the number of day s sales outstanding in net accounts receivable was due to lower collections.

Net cash used by investing activities was $17.5 million for the nine months ended September 30, 2007, consisting principally of (i) $22.5 million of capital expenditures primarily for construction / acquisition of Global Development Center at Pune, Business Process Outsourcing facility at Mumbai and an additional facility in Chennai, as well as for acquitision of computers and software and communications equipment and also capital advance for guest house at Mumbai and (ii) the purchase of short term investments of $96.5 million, partially offset by $101.5 million for the sale of short term investments. Net cash used by investing activities was $27.1 million for the nine months ended September 30, 2006, consisting principally of $96.9 million for the purchase of short term investments and $9.3 million of capital expenditures consisting principally of computer hardware, software, communications equipment, infrastructure and facilities, partially offset by the sale of short term investments of $79.1 million.

Net cash used in financing activities was $6.6 million for the nine months ended September 30, 2007, consisting principally of $7.4 million in dividends paid out partially offset by $0.6 million of proceeds from the issuance of shares under the Company s employee stock option plan and employee stock purchase plan and $0.2 million of tax benefit on stock option exercised during the nine months. Net cash used in financing activities was $56.8 million for the nine months

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ended September 30, 2006, consisting principally of $58.6 million in dividends paid out, partially offset by $1.6 million of proceeds from the issuance of shares under the Company s employee stock option plan and employee stock purchase plan and $0.2 million of tax benefit on stock option 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, 2008. The line of credit has a sub-limit of $5.0 million for letters of credit, which bear a fee of 1% per annum of the face value of each standby letter of credit issued. Borrowings under the line of credit bear interest at (i) a formula approximating the Eurodollar rate plus the applicable margin of 1.25%, (ii) the bank s prime rate minus 1.0% or (iii) negotiated rate plus 1.25%. There were no outstanding borrowings at September 30, 2007 or September 30, 2006.

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, 2007 and 2006, revenues from time and material contracts constituted 63% and 58% 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, 2007 and 2006, revenues from fixed price application management and support engagements constituted 27% and 26% 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, 2007 and 2006, revenues from fixed price development contracts constituted 10% and 16% 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 customer 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.

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**FORWARD LOOKING STATEMENTS / RISK FACTORS**

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 , a expressions. 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. Some of the factors that could cause future results to materially differ from the recent results or those projected in the forward looking statements include the following, which factors are more fully discussed in the Company s most recently filed Annual Report on Form 10-K and other SEC filings, in each case under the section entitled Risk Factors :

Recruitment and Retention of IT Professionals

Government Regulation of Immigration

Customer Concentration; Risk of Termination

Exposure to Political and Regulatory Conditions in India

Wage Pressure in India

Ability to Repatriate Earnings

Intense Competition

Ability to Manage Growth

Fixed-Price Engagements

Potential Liability to Customers

Dependence on Key Personnel

Limited Intellectual Property Protection

Potential Anti-Outsourcing Legislation

Adverse Economic Conditions

Failure to Successfully Develop and Market New Products and Services

Benchmarking Provisions

Corporate Governance Issues

Telecom/Infrastructure Issues

New Facilities

Stock Option Accounting

Terrorist Activity, War or Natural Disasters

Instability and Currency Fluctuations

Risks Related to Possible Acquisitions

Variability of Quarterly Operating Results

The Company does not intend to update the forward looking statements or risk factors to reflect future events or circumstances.

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**RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements , which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact SFAS No. 157 will have on the Company s financial position, results of operations and liquidity and its related disclosures.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ( FAS 159 ). SFAS No. 159 allows companies to make an election, on an individual instrument basis, to report financial assets and liabilities at fair value. The election must be made at the inception of a transaction and may not be reversed. The election may also be made for existing financial assets and liabilities at the time of adoption. Unrealized gains and losses on assets or liabilities for which the fair value option has been elected are to be reported in earnings. SFAS No. 159 requires additional disclosures for instruments for which the election has been made, including a description of management s reasons for making the election. SFAS No. 159 is effective as of fiscal years beginning after November 15, 2007 and is to be adopted prospectively and concurrent with the adoption of SFAS No. 157. The Company is currently evaluating the impact SFAS No. 159 will have on the Company s financial position, results of operations and liquidity and its related disclosures.

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**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, 2007 | December 31, 2006 |
|---|---|---|
| | *(in thousands)* | |
| Cash and cash equivalents | $ 51,494 | $ 51,555 |
| Short term investments | 41,525 | 42,319 |
| **Total** | **$ 93,019** | **$ 93,874** |

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 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, 2007, the Indian rupee has appreciated against the U.S. dollar by 1.3% as compared to the three months ended June 30, 2007. This rupee appreciation negatively impacted the Company s gross margin by 37 basis points, operating income by 55 basis points and net income by 56 basis points, each as a percentage of revenue. The Indian rupee denominated cost of revenues and selling, general and administrative expense was 46% and 65% 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 during the three month period ended September 30, 2007, but these contracts do not have a material impact on the financial statements.

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During the three months ended September 30, 2007 the Company entered into foreign exchange forward contracts 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 $26.8 million as of September 30, 2007. The outstanding foreign exchange forward contracts as of September 30, 2007 mature between one to six months. Net Gains/(losses) on foreign exchange forward and options contracts included under the heading Other Income in the statement of income amounted to $0.2 million for the three and nine months ended September 30, 2007.

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**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of disclosure controls and procedures.** Based on their evaluation of the Company s disclosure controls and procedures as of September 30, 2007 as well as mirror certifications from senior management, the Company s Chairman & Chief Executive Officer and its Chief Financial Officer & Chief Information Security Officer have concluded that the Company s disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and are operating in an effective manner. There have been no changes in the Company s internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the last quarter that materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

**Disclosure Controls and Internal Controls.** Disclosure Controls are procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this Report, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission s (the SEC) rules and forms. Disclosure Controls are also designed to ensure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Internal Controls are procedures designed to provide reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported, all to permit the preparation of our financial statements in conformity with generally accepted accounting principles.

**Limitations on the Effectiveness of Controls.** The Company s management, including the CEO and CFO, does not expect that our Disclosure Controls or our Internal Controls will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with its policies or procedures.

**Scope of the Controls Evaluation.** In the course of the Controls Evaluation, we sought to identify data errors, control problems or acts of fraud and confirm that appropriate corrective actions, including process improvements, were being undertaken. Our Internal Controls are also evaluated on an ongoing basis by our Internal Audit Department and by other personnel in our organization. The overall goals of these various evaluation activities are to monitor our Disclosure Controls and our Internal Controls, and to modify them as necessary; our intent is to maintain the Disclosure Controls and the Internal Controls as dynamic systems that change as conditions warrant.

Among other matters, we sought in our evaluation to determine whether there were any significant deficiencies or material weaknesses in the Company s Internal Controls, and whether the company had identified any acts of fraud involving personnel with a significant role in the Company s Internal Controls. This information was important both for the Controls Evaluation generally, and because the Rule 13a-14 Certifications of the CEO and CFO require that the CEO and CFO disclose that information to our Board s Audit Committee and our independent auditors. We also sought to deal with other controls matters in the Controls Evaluation, and in each case if a problem was identified, we considered what revision, improvement and/or correction to make in accordance with our ongoing procedures.

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**Conclusions.** Based upon the Controls Evaluation, our CEO and CFO have concluded that as of September 30, 2007 our disclosure controls and procedures are effective to ensure that material information relating to Syntel and its consolidated subsidiaries is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared, and that our Internal Controls are effective to provide reasonable assurance that our financial statements are fairly presented in conformity with generally accepted accounting principles in the United States of America.

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## PART II

## OTHER INFORMATION

**Item 1. Legal Proceedings.**

While the Company is a party to ordinary routine litigation incidental to its business, the Company is not a party to any material pending legal proceedings.

**Item 1A. Risk Factors.**

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, 2006.

**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.**

*Exhibits*

| Exhibit No. | Description |
|---|---|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. |
| 32 | Section 1350 Certification of Chief Executive Officer and Chief 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, 2007 | /s/ Bharat Desai<br>Bharat Desai,<br>Chairman & Chief Executive Officer |
| Date : November 06, 2007 | /s/ Arvind Godbole<br>Arvind Godbole,<br>Chief Financial Officer & Chief Information Security Officer |

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**EXHIBIT INDEX**

| Exhibit No. | Description |
| --- | --- |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. |
| 32 | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer. |