SYNTEL INC
Form 10-Q
May 06, 2010
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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 March 31, 2010 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	**(IRS Employer**
of Incorporation or Organization)	**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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

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

Common Stock, no par value: 41,531,053 shares issued and outstanding as of April 30, 2010.

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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 MARCH 31, 2010	THREE MONTHS ENDED MARCH 31, 2009
Net revenues	$ 116,039	$ 96,434
Cost of revenues	66,800	51,562
Gross profit	**49,239**	**44,872**
Selling, general and administrative expenses	22,248	18,724
Income from operations	26,991	26,148
Other income, principally interest	2,283	985
Income before income taxes	29,274	27,133
Income tax expense (benefit)	4,143	(216)
Net income	**$ 25,131**	**$ 27,349**
Dividend per share	$ 0.06	$ 0.06
EARNINGS PER SHARE:		
Basic	0.61	0.66
Diluted	0.60	0.66
Weighted average common shares outstanding:		
Basic	41,483	41,356
Diluted	41,566	41,435

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)

	March 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 100,785	$ 87,822
Short term investments	112,388	112,243
Accounts receivable, net of allowances for doubtful accounts of $3,060 and $3,000 at March 31, 2009 and December 31, 2009, respectively	55,704	48,523
Revenue earned in excess of billings	16,004	5,809
Deferred income taxes and other current assets	27,243	23,739
Total current assets	312,124	278,136
Property and equipment	152,570	143,911
Less accumulated depreciation and amortization	59,519	54,271
Property and equipment, net	93,051	89,640
Goodwill	906	906
Non current Term Deposits with Banks Deferred income taxes and other non current assets	13,539	23,337
	22,730	20,603
TOTAL ASSETS	**$ 442,350**	**$ 412,622**
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
Current liabilities:		
Accounts payable	$ 9,048	$ 7,879
Accrued payroll and related costs	23,898	26,240
Income taxes payable	1,026	777
Accrued liabilities	9,509	10,484
Deferred revenue	5,143	5,888
Dividends payable	2,750	2,776
Total current liabilities	**51,374**	**54,044**
Other non current liabilities	8,957	8,540
TOTAL LIABILITIES	**60,331**	**62,584**
SHAREHOLDERS EQUITY		
Total shareholders equity	382,019	350,038
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**$ 442,350**	**$ 412,622**

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				Accumulated other Comprehensive Income			
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Unrealized Investment Gain	Unamortised acturial gain	Foreign Currency Translation Adjustment	Total Shareholders Equity
Balance, December 31, 2009	**41,381**	**$ 1**	**158**	**$ 9,042**	**$ 66,319**	**$ 288,754**	**$ 88**	**$ 34**	**$ (14,200)**	**$ 350,038**
Net income						25,131				25,131
Other comprehensive income, net of tax							33	(7)	8,637	8,663
Total Comprehensive Income										33,794
Stock options activity	39				580					580
Restricted stock activity			(44)	92						92
Dividends						(2,485)				(2,485)
Balance, March 31, 2010	**41,420**	**$ 1**	**114**	**$ 9,134**	**$ 66,899**	**$ 311,400**	**$ 121**	**$ 27**	**$ (5,563)**	**$ 382,019**

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)

	THREE MONTHS ENDED MARCH 31, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 25,131	$ 27,349
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	3,481	3,837
Bad debt provisions	1	1,478
Realized gains on sales of short term investments	(295)	(340)
Deferred income taxes	(1,028)	(232)
Compensation expense related to restricted stock	65	514
Adjustment related to the uncertain tax positions and other tax credits		(4,301)
Changes in assets and liabilities:		
Accounts receivable and revenue earned in excess of billings	(15,104)	(4,324)
Other assets	(2,927)	(1,677)
Accrued payroll and other liabilities	(2,774)	(7,474)
Deferred revenue	(573)	(447)
Net cash provided by operating activities	5,977	14,383
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment expenditures	(3,828)	(3,470)
Purchase of mutual funds	(79,283)	(44,309)
Purchase of term deposits with banks	(12,051)	(19,898)
Proceeds from sales of mutual funds	84,279	42,981
Maturities of term deposits with banks	21,322	5,537
Net cash provided by (used in) investing activities	10,439	(19,159)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	580	50
Dividends paid	(2,483)	(2,477)
Net cash used in financing activities	(1,903)	(2,427)
Effect of foreign currency exchange rate changes on cash	(1,550)	(54)
Change in cash and cash equivalents	12,963	(7,257)
Cash and cash equivalents, beginning of period	87,822	65,031
Cash and cash equivalents, end of period	$ 100,785	$ 57,774

Non cash investing and financing activities:		
Cash dividends declared but unpaid	$ 2,485	$ 2,787
Cash paid for income taxes	6,028	5,899

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 March 31, 2010, the results of their operations for the three months ended March 31, 2010 and 2009, and cash flows for the three months ended March 31, 2010 and 2009. The year-end condensed consolidated balance sheet as of December 31, 2009 was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2009.

Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

2. PRINCIPLES OF CONSOLIDATION AND ORGANIZATION

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

The wholly owned subsidiaries of Syntel, Inc. are:

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

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

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

Syntel Canada Inc., an Ontario limited liability company;

Syntel Deutschland GmbH, a German limited liability company;

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

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

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

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

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

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

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

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

The partially owned joint venture of Syntel Delaware 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:

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

The wholly owned subsidiaries of Syntel Mauritius are:

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

Syntel Global Private Limited, an Indian limited liability company.

The wholly owned subsidiary of SSBML is:

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

The wholly owned subsidiary of Syntel Europe is:

Intellisourcing, SARL, a French limited liability company.

3. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include, but are not limited to, the allowance for doubtful accounts, impairment of long-lived assets and goodwill, contingencies and litigation, the recognition of revenues and profits based on the proportional performance method and potential tax liabilities. Actual results could differ from those estimates and assumptions used in the preparation of the accompanying financial statements.

4. REVENUE RECOGNITION

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

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

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

Revenues are reported net of sales incentives.

Reimbursements of out-of-pocket expenses are included in revenue in accordance with revenue guidance in the FASB codification.

5. STOCK-BASED EMPLOYEE COMPENSATION PLANS

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

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6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

During the quarter ended March 31, 2010, the Company did not enter into any foreign exchange forward contracts.

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 March 31, 2010 and December 31, 2009, approximately, $9.1 million and $20.4 million, respectively, are in a money market fund maintained by JP Morgan Chase Bank NA that invests in corporate bonds and treasury notes. Term deposits with original maturity of three months or less with Bank of India were $45.3 million and $11.8 million as at March 31, 2010 and December 31, 2009, respectively. The remaining amounts of cash and cash equivalents were invested in money market accounts with various banking and financial institutions.

8. COMPREHENSIVE INCOME

Total Comprehensive Income for the three months ended March 31, 2010 and 2009 is as follows:

	Three Months Ended March 31,	
	2010	**2009**
	(In thousands)	
Net income	$ 25,131	$ 27,349
Other comprehensive income:		
- Unrealized investment gain (loss)	33	28
- Unamortised acturial gain (loss) as per ASC 715, net of tax	(7)	(47)
- Foreign currency translation adjustments	8,637	(8,843)
Total comprehensive income	**$ 33,794**	**$ 18,487**

9. EARNINGS PER SHARE

Basic earnings per share are 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 benefit on exercise of stock options is considered as additional proceeds while computing dilutive earnings per share using the treasury stock method.

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

	Three Months Ended March 31, 2010		2009	
	Weighted Average Shares	Earnings per Share	Weighted Average Shares	Earnings per Share
	(in thousands, except per share earnings)			
Basic earnings per share	41,483	$ 0.61	41,356	$ 0.66
Potential dilutive effect of stock options outstanding	83	(0.01)	79	
Diluted earnings per share	**41,566**	**$ 0.60**	**41,435**	**$ 0.66**

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

Knowledge Process Outsourcing (KPO)

e-Business and

TeamSourcing

These segments are the basis on which the Company reports its primary segment information to management. Management allocates all corporate expenses among the segments. No balance sheet/identifiable assets data is presented since the Company does not segregate its assets by segment. Financial data for each segment for the three months ended March 31, 2010 and 2009 is as follows:

	Three Months Ended March 31, 2010	2009
	(in thousands)	
Revenues:		
Applications Outsourcing	$ 86,770	$ 67,506
KPO	18,921	18,714
e-Business	7,460	8,431
TeamSourcing	2,888	1,783
	116,039	**$ 96,434**
Gross Profit:		
Applications Outsourcing	31,019	$ 27,443
KPO	13,256	11,727
e-Business	3,364	4,882
TeamSourcing	1,600	820

	49,239	**44,872**
Selling, general and administrative expenses	22,248	18,724
Income from operations	**$ 26,991**	**$ 26,148**

During the three months ended March 31, 2010, American Express Corp. and State Street Bank each contributed revenues in excess of 10% of total consolidated revenues. Revenue from American Express Corp. and State Street Bank was $25.6 million and $21.1 million, respectively, during the three months ended March 31, 2010, contributing approximately 22.0% and 18.2%, respectively of total consolidated revenues. The entire revenue from American Express Corp. was generated in the Application Outsourcing segment. Approximately 77% of the revenue from State Street Bank was generated in the KPO segment, 22% in the Application Outsourcing segment and one percent in e-Business. The corresponding revenues for the three months ended March 31, 2009 from American Express Corp. and State Street Bank was $17.4 million and $20.5 million, respectively, contributing approximately 18.1% and 21.3%, respectively, of total consolidated revenues. At March 31, 2010 and December 31, 2009, accounts receivable from American Express Corp. were $5.8 million and $4.2 million, respectively. Accounts receivable from State Street Bank were $9.9 million and $9.4 million, respectively, as at March 31, 2010 and December 31, 2009.

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11. GEOGRAPHIC INFORMATION

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

Net Revenues (1)	Three Months Ended March 31, 2010	2009
	(in thousands)	
North America (2)	108,290	88,058
India	450	1,449
Europe (3)	6,923	6,664
Rest of the World	376	263
Total revenue	**116,039**	**96,434**

Long-Lived Assets (4)	As on March, 31 2010	As on December, 31 2009
	(in thousands)	
North America (2)	1,726	1,826
India	92,181	88,668
Europe (3)	50	52
Total	**93,957**	**90,546**

Notes for the Geographic Information Disclosure:

1. Net revenues are attributed to regions based upon customer location

2. Primarily relates to operations in the United States

3. Primarily relates to operations in the United Kingdom

4. Long-lived assets include property and equipment, net of accumulated depreciation and amortization and goodwill.

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 March 31, 2010	2009
Statutory provision	35.0%	35.0%
State taxes, net of federal benefit	0.1%	0.4%

Foreign effective tax rates different from US statutory rate	(20.9%)	(19.7%)
Tax Reserve		(12.1%)
Others, net		(4.4%)
Effective Income Tax Rate	**14.2%**	**(0.8%)**

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During the three months ended March 31, 2010 and 2009, the effective income tax rates were 14.2% and (0.8%), respectively. The tax rate for the three months ended March 31, 2009 was impacted by a favorable adjustment of $4.3 million as a result of the Company s review of its global uncertain tax positions, which is based on the expiration of the statute of limitations related to certain global tax contingencies and completion of certain tax audits.

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

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

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

Syntel Inc. and its subsidiaries file income tax returns in various tax jurisdictions. The Company is no longer subject to US federal tax examinations by tax authorities for years before 2006 and for state tax examinations for years before 2005. Further, Syntel India has disputed tax matters for the financial years 1995-96 to 2005-06 pending at various levels of tax authorities. Financial year 2006-07 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. As on March 31, 2010, India tax authority has re-opened the assessment of financial year 2002-03.

On February 26, 2010, the Finance Budget 2010 was proposed in India. The proposals included reduction in Surcharge on tax from 10% to 7.5% (consequential reduction in Corporate Tax rate from 33.99% to 33.218% and Dividend distribution tax from 16.995% to 16.608%) and increase in the Minimum Alternative Tax (MAT) rate from 16.995% to 19.93%.

The proposed changes, if enacted, will have impact on the operations of India based entities. Accordingly, there may be an unfavorable impact of approximately $0.4 million on the financial statements of the Company for the year 2010 and an additional outflow of approximately $2 million on account of payment of MAT, if the proposed changes are enacted.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as part of tax expense. During the quarter ended March 31, 2010, the Company recognized interest of approximately $0.02 million. The liability for unrecognized tax benefits was $12.2 million and $11.4 million, as of March 31, 2010 and December 31, 2009, respectively.

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The Company had accrued approximately $0.25 million and $0.20 million for interest and penalties as of March 31, 2010 and December 31, 2009, respectively.

The Company s amount of unrecognized tax benefits for the tax disputes of $2.34 million and potential tax disputes of $2.25 million could change in the next twelve months as litigations and global tax audits progress. At this time, due to the uncertain nature of this process, it is not reasonably possible to estimate an overall range of possible change.

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

Syntel India has not provided for disputed Indian income tax liabilities amounting to $2.07 million as of March 31, 2010 for the financial years 1995-96 to 2001-02, after recognizing certain tax liabilities aggregating $0.04 million provided at the adoption of FIN 48 during the year 2007. Syntel India has obtained an opinion from one independent legal counsel (a former Chief Justice of the Supreme Court of India) for the financial year 1998-99 and opinions from another independent legal counsel (also a former Chief Justice of the Supreme Court of India) for the financial years 1995-96, 1996-97, 1997-98, 1999-2000 and 2000-01 and for subsequent periods, which support Syntel India s position in this matter.

For the financial years 1998-99 and 1999-2000, the ITAT has held the matter in favor of Syntel India. The Income Tax Department has filed a further appeal before the Bombay High Court for the amount allowed by ITAT. The Bombay High Court has dismissed the Income Tax Department appeal on account of a delay in filing Tax Appeal on July 23, 2009. The Income Tax Department may file a further appeal before the Supreme Court of India. For the financial years 1995-96 to 1997-98 and 2000-01, the Syntel India has received a favorable order from the ITAT, wherein the contention of the Company was upheld for these years. The Income Tax Department has filed a further appeal before the Bombay High Court for the financial years 1996-97 to 2001-02 for amounts allowed by the ITAT. The Bombay High Court has dismissed the appeals filed by the Income Tax Department for the financial years 1998-99, 1999-2000 and 2001-02 on account of a delay in filing the appeal. The Bombay High Court has dismissed the appeals filed by the Income Tax Department for the financial years 1996-97, 1997-98 and 2000-01 at the admission stage, on the grounds that no substantial question of law arose from the appeals filed by the Income Tax Department, as the ITAT had given a specific finding which was based on facts.

Syntel India has also not provided for other disputed Indian income tax liabilities aggregating to $5.57 million as of March 31, 2010 for the financial years 2001-02 to 2004-05 which is after recognizing tax on certain tax liabilities aggregating $0.03 million provided at the adoption of FIN 48 during the year 2007. Syntel India has obtained opinions from independent legal counsels, which support Syntel India s stand in this matter. Syntel India has received an order from the CIT(A) for the financial year 2001-02 in which the contention of Syntel India was partially upheld. Syntel India filed a further appeal with the ITAT in relation to the amounts not allowed by the CIT(A). The Income Tax Department has also filed a further appeal against the relief granted to Syntel India by CIT(A). Syntel India has received has received a favorable order from the ITAT on January 24, 2009, wherein the contention of the Company is fully upheld for financial years 2001-02. The Income Tax Department has filed a further appeal before the Bombay High Court against the order of ITAT in respect to tax on one item only. Accordingly, Company tax disputes are reduced for the financial year by $2.5 million. The Bombay High Court has dismissed the Income Tax Department Appeal on account of a delay in filing the Tax Appeal on July 22, 2009. The Income Tax department may file a further appeal before Supreme Court of India.

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

For the financial year 2004-05, the appeal of the Company was fully allowed by CIT(A). The Income Tax Department has filed a further appeal with ITAT for the amounts allowed by the CIT(A)except one item. The Income Tax Department s appeal is rejected by ITAT. The Income Tax department may file further appeal before Bombay High Court for the amounts allowed by the ITAT except an item on which in which CIT (A) had granted the relief to the company and Income Tax department had not filed appeal before ITAT. Accordingly, company has reversed tax provision of $0.33 million during the quarter ended March 31, 2010. For the financial year 2005-06, the Indian Income Tax Department has decided against Syntel India in respect to a particular tax position and Syntel India has filed an appeal with the CIT (A).

Further, Syntel India has not provided for disputed income tax liabilities aggregating to $0.14 million for various years, which is after recognizing certain tax liabilities aggregating $0.01 million provided for uncertain income tax positions during the year 2007, for which Syntel India has filed the necessary appeals/petition.

Syntel India has provided for tax liability amounting to 2.98 million in the books for the financial years 1995-96 to 2005-06 on a particular tax matter. Syntel India has been contending the taxability of the same with the Indian Income Tax department. For the financial years 1998-99 and 1999-2000, the ITAT has held the matter in favor of Syntel India. The Income Tax Department has filed a further appeal before the Bombay High Court for the amount allowed by ITAT. The Bombay High Court has dismissed the Income Tax Department appeal on account of a delay in filing Tax Appeal on July 23, 2009. The Income Tax Department may file a further appeal before the Supreme Court of India. For the financial years 1995-96 to 1997-98 and 2000-01, the Company has received a favorable order from the ITAT, wherein the contention of the Company was upheld for these years. The Income Tax Department has filed a further appeal before the Bombay High Court for the financial years 1996-97 to 2001-02 for amounts allowed by the ITAT. The Bombay High Court has dismissed the appeals filed by the Income Tax Department for the financial years 1998-99, 1999-2000 and 2001-02 on account of a delay in filing the appeal. The Bombay High Court has dismissed the appeals filed by the Income Tax Department for the financial years 1996-97, 1997-98 and 2000-01 at the admission stage, on the grounds that no substantial question of law arose from the appeals filed by the Income Tax Department, as the ITAT had given a specific finding which was based on facts.

For the financial years 2001-02 and 2002-03, the CIT(A) has held against the Company and the Company has filed further appeal with the ITAT. For the financial year 2001-02, the Income Tax Department has filed further appeal before the Bombay High Court in respect to one item only. The Bombay High Court has dismissed the Income Tax Department appeal on account of a delay in filing Tax Appeal on July 22, 2009. The Income Tax department may file a further appeal before the Supreme Court of India. For the financial year 2003-04, the CIT(A) has partially allowed the appeal in favor of the Company. The Company has filed an appeal with the ITAT for the amounts not allowed by the CIT(A). The Income Tax Department has filed a further appeal with ITAT for the amounts allowed by the CIT(A). For the financial year 2004-05, the appeal of the company was fully allowed by CIT(A) . The Income Tax Department has filed further with ITAT for the amounts allowed by the CIT(A) except one item. ITAT has rejected the Income Tax Department appeal. Income Tax Department may file further before Bombay High Court for the amounts allowed by the ITAT except an item on which CIT(A) has granted the relief to the company and Income Tax department had not filed appeal before ITAT. Accordingly, company has reversed tax provision of $0.33 million during the quarter ended March 31, 2010. For the financial year 2005-06, the Indian Income Tax Department has decided against Syntel India in respect to a particular tax position, and Syntel India has filed an appeal with the CIT(A).

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

Branch Profit Tax

Syntel India is subject to a 15% USA Branch Profit Tax (BPT) related to its effectively connected income in the USA, to the extent its US taxable adjusted net income during the taxable year is not invested in the USA. The Company expects that US profits earned on or after January 1, 2008 will be permanently invested in the USA. Accordingly, effective January 1, 2008, the provision for Branch profit taxes is not required. The accumulated deferred tax liability of $1.73 million as of December 31, 2007 will continue to be carried forward. Estimated additional Branch Profit taxes which would be due, if US profits were not to be permanently invested, approximate $2.24 million as of March 31, 2010.

Undistributed earnings of foreign subsidiaries

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

Estimated additional taxes which would be due, if undistributed earnings were to be distributed, approximate $154.6 million as of March 31, 2010.

13. STOCK BASED COMPENSATION

Share Based Compensation:

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

The Company accounts for share-based compensation based on the estimated fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company s Statement of Income. Share-based compensation expense recognized as above for the three months ended March 31, 2010 and 2009 was $0.07 million and $0.51 million, respectively, including a charge for restricted stock.

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

Restricted Stock:

On different dates during the three months ended March 31, 2010 and the years ended December 31, 2009, 2008, 2007, 2006 and 2005, the Company issued none, 12,224, 80,676, 14,464, 16,536 and 54,806 shares, respectively, of incentive restricted stock to its non-employee directors and some employees as well as to some employees of its subsidiaries. The shares were granted to employees for their future services as a retention tool at a zero exercise price, with the restrictions on transferability lapsing with regard to 25% of the shares issued on or after the first, second, third and fourth anniversary of the grant dates. Generally, the shares to non-employee directors are granted for their future services starting from the date of the annual meeting to the date of the following annual meeting.

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In addition to the shares of restricted stock described above, on different dates during the three months ended March 31, 2010 and the years ended December 31, 2009, 2008, 2007 and 2006 the Company issued none, none, 33,000, 66,000 and 57,500 shares, respectively, of incentive restricted stock to some employees as well as to some employees of its subsidiaries. The shares were granted to employees for their future services as a retention tool at a zero exercise price, with the restrictions on transferability lapsing with regard to 20% of the shares issued on or after the first, second, third, fourth and fifth anniversary of the grant dates.

During the year ended December 31, 2006, the Company issued 153,500 shares of performance restricted stock to some employees as well as to some employees of its subsidiaries. Each such performance restricted stock grant is divided in a pre-defined proportion with the vesting (lifting of restriction) of one portion based on the overall annual performance of the Company and the vesting (lifting of restriction) of the other portion based on the achievement of pre-defined long term goals of the Company. These stocks will vest (have the restrictions lifted) over a period of 5 years (at each anniversary) in equal installments, subject to meeting the above pre-defined criteria of overall annual performance and achievement of the long term goal. The stock linked to overall annual performance would lapse (revert to the Company) on non-achievement of the overall annual performance in the given year. However, the stock linked to achievement of the long term goal would roll over into a common pool and would lapse only on the non-achievement of the long term goal on or prior to the end of fiscal year 2012.

During the three months ended March 31, 2010 and 2009, the Company expensed $0.09 million and $0.50 million, respectively, as compensation on account of the above stock grants.

The recipients are also eligible for dividends declared on their restricted stock. The dividends accrued or paid on shares of unvested restricted stock are charged to compensation cost. For the three months ended March 31, 2010 and 2009, the Company recorded $(0.03) million and $0.02 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, 2009, 2008, 2007 and 2006 and for the three months ended March 31, 2010 the dividend is accrued and paid subject to the same restriction as the restriction on transferability.

The impact on the Company s results of operations of recording stock-based compensation (including impact of restricted stock) for the three months ended March 31, 2010 and 2009 was as follows:

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	(in thousands)	
Cost of revenues	$ 8	$ 133
Selling, general and administrative expenses	57	381
	$ 65	$ 514

Cash received from option exercises under all share-based payment arrangements for the three months ended March 31, 2010 and 2009, was $0.58 million and $0.05 million respectively. New shares were issued for all options exercised during the three months ended March 31, 2010.

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:

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Assumptions:		
Risk free interest rate	2.54%	1.81%
Expected life	5.00	5.00
Expected volatility	60.87%	62.68%

Expected dividend yield	0.62%	1.17%

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The Company s computation of expected volatility for the three months ended March 31, 2010 and 2009 is based on historical volatility from exercised options on the Company s stock. The Company s computation of expected life was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The interest rate for periods within the contractual life of the award is based on the U.S. 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 three months ended March 31, 2010:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2010	73,413	$ 13.28		
Granted				
Exercised	39,000	14.86		
Forfeited				
Expired / Cancelled				
Outstanding at March 31, 2010	**34,413**	**$ 11.49**	**2.06**	**$ 956**
Options Exercisable at March 31, 2010	**34,413**	**$ 11.49**	**2.06**	**$ 956**

No options were granted during the three months ended March 31, 2010 and 2009. The aggregate fair value of shares vested during the three months ended March 31, 2010 and 2009 was $0.67 million and $0.04 million, respectively.

14. VACATION PAY

The accrual for unutilized leave balance is based on the available leave balance owed to the employees at period end. The leave balance eligible for carry-forward is valued at gross compensation rates and is eligible for payment at basic compensation rates.

The gross charge for unutilized earned leave was $0.9 million and $1.0 million for the three months ended March 31, 2010 and 2009, respectively.

The amounts accrued for unutilized earned leave are $11.5 million and $11.1 million as of March 31, 2010 and December 31, 2009, respectively, and are included within Accrued payroll and related costs .

15. CONSOLIDATION OF A VARIABLE INTEREST ENTITY

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

The Company s KPO services to State Street Bank and two other clients are provided through the above joint venture between the Company and an affiliate of State Street Bank. Sales of KPO services only to these three clients represented approximately 15.8% and 17.9% of the Company s total revenues for the period ended March 31, 2010 and 2009, respectively.

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16. FAIR VALUE MEASUREMENTS

We adopted the authoritative guidance for fair value measurements and fair value option on January 1, 2008 for financial assets and liabilities, which primarily relate to our investments and forward contracts, and on January 1, 2009, for nonfinancial assets and liabilities.

This Standard includes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity s pricing based upon their own market assumptions.

The fair value hierarchy consists of the following three levels:

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

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

Level 3 Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The following table summarizes our financial assets and (liabilities) measured at fair value on a recurring basis as of March 31, 2010:

				(In Millions)
	Level 1	**Level 2**	**Level 3**	**Total**
Cash & Cash Equivalents				
Money Market Funds	$ 9.1			$ 9.1
Short Term Investments-				
Available for Sale Securities	23.3			23.3
Total Assets (Liabilities) measured at fair value	$ 32.4			$ 32.4

The following table summarizes our financial assets and (liabilities) measured at fair value on a recurring basis as of December 31, 2009:

				(In Millions)
	Level 1	**Level 2**	**Level 3**	**Total**
Cash & Cash Equivalents				
Money Market Funds	$ 20.4			$ 20.4
Short Term Investments-				
Available for Sale Securities	27.2			27.2
Total Assets (Liabilities) measured at fair value	$ 47.6			$ 47.6

In addition to the above the following table summarizes the term deposits with various banks outstanding as at March 31, 2010 and December 31, 2009.

Balance Sheet Item	**As at March 31, 2010**	**As at December 31, 2009**
Cash & Cash Equivalents	$ 55.3	$ 21.8
Short Term Investments	89.1	85.1
Non Current Assets	13.5	23.3
Total	$ 157.9	$ 130.2

17. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2009, the FASB issued Accounting Standard Update (ASU) 2009-16, Transfers and Servicing (Topic 860) : Accounting for Transfers of Financial Assets . ASU 2009-16 incorporates the guidance from Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (FAS 166), into the *FASB Accounting Standards Codification* (FASB ASC). The objective of the update is to provide greater clarity about transfers of financial assets, including securitization transactions, and where entities have continuing exposures to risks related to transferred financial assets. The concept of qualifying special-purpose entities (QSPEs) is eliminated. Under the revised guidance, many QSPEs that were previously off-balance-sheet entities will become subject to the guidance for consolidation of variable interest entities (ASU 2009-17). The guidance is effective as of the beginning of annual reporting periods beginning after Nov. 15, 2009. We addopted this standard during the first quarter of 2010 and there was no significant impact on our financial statements.

In December 2009, the FASB issued ASU 2009-17, Consolidation (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities . ASU 2009-17 incorporates the guidance from FAS 167, Amendments to FASB Interpretation No. 46(R), into the codification. The update changes how a company determines when an entity should be consolidated when it is insufficiently capitalized or is not controlled through voting or similar rights. The guidance replaces the previously required quantitative approach with an approach that is more qualitative and requires an ongoing assessment of whether an enterprise is the primary beneficiary of a variable interest entity. The ASU is effective as of the first annual reporting period beginning after Nov. 15, 2009. We adopted this standard during the first quarter of 2010 and there was no significant impact on our financial statements.

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

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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

Net Revenues. The Company s revenues consist of fees derived from its Applications Outsourcing, Knowledge Process Outsourcing (KPO), e-Business and TeamSourcing business segments. Net revenues for the three months ended March 31, 2010 increased to $116.0 million from $96.4 million for the three months ended March 31, 2009, representing a 20.3% increase. The Company s verticalization sales strategy focusing on Banking and Financial Services; Healthcare; Insurance; Telecom; Automotive; Retail; Logistics and Travel has enabled better focus and relationships with key clients. Further, continued focus on execution and investments in new offerings such as our Testing and Center of Excellence have a potential to contribute growth in the business. The focus is to continue investments in more new offerings and geographical expansion. Worldwide billable headcount as of March 31, 2010 increased by 13.6% to 9,692 employees as compared to 8,529 employees as of March 31, 2009. However, the growth in revenues was much higher when compared with the growth in the billable headcount. This is primarily because a significant growth in the billable headcount was in onsite employees , where our revenues per onsite billable resource are generally higher as compared to an offshore based resource. As of March 31, 2010, the Company had approximately 78.0% of its billable workforce in India as compared to 82.0% as of March 31, 2009. The Company s top five clients accounted for 59.7% of the total revenues in the three months ended March 31, 2010, up from 59.2% of its total revenues in the three months ended March 31, 2009. Moreover, the Company s top 10 clients accounted for 75.5% of the total revenues in the three months ended March 31, 2010 as compared to 74.1% in the three months ended March 31, 2009.

Cost of Revenues. The Company s 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. The cost of revenues increased to 57.6% of total revenues for the three months ended March 31, 2010, from 53.5% for the three months ended March 31, 2009. The 4.1% increase in cost of revenues, as a percent of revenues for the three months ended March 31, 2010, as compared to the three months ended March 31, 2009, was attributable primarily to the hiring ahead of anticipated demand, lower utilization of resources and rupee appreciation.

Applications Outsourcing Revenues. Applications Outsourcing revenues increased to $86.8 million for the three months ended March 31, 2010 or 74.8% of total revenues, from $67.5 million, or 70.0% of total revenues for the three months ended March 31, 2009. The $19.3 million increase was attributable primarily to revenues from new engagements contributing $54.9 million, largely offset by $35.6 million in lost revenues as a result of project completion and net reduction in revenues from existing projects.

Applications Outsourcing Cost of Revenues. Applications Outsourcing cost of revenues consists of costs directly associated with billable consultants in the US and offshore, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder s fees, trainee compensation and travel. Applications Outsourcing cost of revenues increased to 64.3% of total Applications Outsourcing revenues for the three months ended March 31, 2010, from 59.3% for the three months ended March 31, 2009. The 5.0% increase in cost of revenues, as a percent of revenues for the three months ended March 31, 2010, as compared to the three months ended March 31, 2009, was attributable primarily to lower utilization of resources and rupee appreciation partly offset by decrease in other expenses.

KPO Revenues. KPO revenues increased to $18.9 million for the three months ended March 31, 2010, or 16.3% of total revenues, from $18.7 million, or 19.4% of total revenues for the three months ended March 31, 2009. The $0.2 million increase was attributable primarily to revenues from new engagements and net increase in revenues from existing projects contributing $2.6 million largely offset by $2.4 million in lost revenues as a result of project completion.

KPO Cost of Revenues. KPO cost of revenues consists of costs directly associated with billable consultants, including salaries, payroll taxes, benefits, finder s fees, trainee compensation, and travel. Cost of revenues for the three months ended March 31, 2010 decreased to 29.9% of KPO revenues from 37.3% for the three months ended March 31, 2009. The 7.4% decrease in cost of revenues, as a percent of total KPO revenues, as compared to the three months ended March 31, 2009, was attributable primarily to better utilization of resources, cost rationalization partly offset by increase in other expenses.

e-Business Revenues. E-Business revenues decreased to $7.5 million for the three months ended March 31, 2010, or 6.4% of total revenues, from $8.4 million, or 8.7% of total revenues for the three months ended March 31, 2009. The $0.9 million decrease was attributable primarily to $6.9 million in lost revenues as a result of project completion and net reduction in revenues from existing projects, largely offset by revenues from new engagements contributing $6.0 million.

e-Business Cost of Revenues. e-Business cost of revenues consists of costs directly associated with billable consultants in the US and offshore, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder s fees, trainee compensation, and travel. e-Business cost of revenues increased to 54.9% of total e-Business revenues for the three months ended March 31, 2010, from 42.1% for the three months ended March 31, 2009. The 12.8% increase in cost of revenues as a percent of e-Business revenues for the three months ended March 31, 2010, as compared to the three months ended March 31, 2009, is principally attributable to decrease in e-Business revenues, rupee appreciation and unfavorable utilization of resources.

TeamSourcing Revenues. TeamSourcing revenues increased to $2.9 million for the three months ended March 31, 2010, or 2.5% of total revenues, from $1.8 million, or 1.8% of total revenues for the three months ended March 31, 2009. The $1.1 million increase was attributable primarily to revenues from new engagements and revenue from the SkillBay web portal, which helps clients of Syntel with their supplemental staffing requirements, contributing $2.5 million, partially offset by $1.4 million in lost revenues as a result of project completion, including conversion of staffing engagements into Syntel managed engagements, and net reduction in revenues from existing projects.

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 44.6% of TeamSourcing revenues for the three months ended March 31, 2010, from 54.0% for the three months ended March 31, 2009. The 9.4% decrease in TeamSourcing cost of revenues, as a percent of TeamSourcing revenues, is attributable primarily to better utilization of resources.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses consist primarily of salaries, payroll taxes and benefits for sales, solutions, finance, administrative, and corporate staff; travel; telecommunications; business promotions; and marketing and various facility costs for the Company s global development centers and other offices. Selling, general, and administrative expenses for the three months ended March 31, 2010 were $22.2 million or 19.2% of total revenues, compared to $18.7 million or 19.4% of total revenues for the three months ended March 31, 2009.

The 0.2 percentage point decrease is primarily due to increase in revenue that resulted in 3.9 percentage point decrease. Further, three months ended March 31, 2009 had a provision towards doubtful debts of $1.5 million which resulted in a 1.5 percentage point decrease and there was no such reserve for three months ended March 31, 2010. The above decrease was partially offset by increase in; foreign exchange loss during the quarter ended March 31, 2010 by $3.5 million that resulted in an approximately 3.7 percentage point increase and compensation and benefits by $1.5 million which resulted in an approximately 1.5 percentage point increase as compared to the three months ended March 31, 2009.

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

Other income for the three months ended March 31, 2010 was $2.3 million or 2.0% of total revenues, compared to $1.0 million or 1.0% of total revenues for the three months ended March 31, 2009. The increase in other income of $1.3 million was attributable to; loss on forward contract of $0.7 million during the period three months ended March 31, 2009 compared to none during the period three months ended March 31, 2010 and increase in interest income of $0.6 million.

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

During the three months ended March 31, 2010 and 2009, the effective income tax rates were 14.2% and (0.8%), respectively. The tax rate for the three months ended March 31, 2009 was impacted by a favorable adjustment of $4.3 million as a result of the Company s review of its global uncertain tax positions, which is based on the expiration of the statute of limitations related to certain global tax contingencies and completion of certain tax audits.

FINANCIAL POSITION

Cash and Cash Equivalents: Cash and Cash equivalents increased from $57.8 million at March 31, 2009 to $100.8 million at March 31, 2010 primarily due to increased collections during the three months ended March 31, 2010.

LIQUIDITY AND CAPITAL RESOURCES

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

Net cash generated by operating activities was $6.0 million for the three months ended March 31, 2010. This includes $15.1 million related to an increase in net accounts receivable. The net cash generated by operating activities was $14.4 million for the three months ended March 31, 2009. The number of days sales outstanding in net accounts receivable was approximately 56 days and 51 days as of March 31, 2010 and 2009, respectively. The increase in the number of day s sales outstanding in net accounts receivable was due to lower collections.

Net cash generated by investing activities was $10.4 million for the three months ended March 31, 2010, consisting principally of $105.6 million from the sale of short term investments largely offset by $91.3 million for the purchase of short term investments and $3.8 million of capital expenditures primarily for construction/acquisition of Global Development Center at Pune, Knowledge Process Outsourcing facility at Mumbai and an additional facility in Chennai, as well as for acquisition of computers and software and communications equipment. Net cash used in investing activities was $19.2 million for the three months ended March 31, 2009, consisting principally of $3.5 million of capital expenditures primarily for construction/acquisition of Global Development Center at Pune, Knowledge Process Outsourcing facility at Mumbai and an additional facility in Chennai, as well as for acquisition of computers and software and communications equipment and the purchase of short term investments of $64.2 million, largely offset by $48.5 million from the sale of short term investments.

Net cash used in financing activities was $1.9 million for the three months ended March 31, 2010, consisting principally of $2.5 million in dividends paid out, partially offset by proceeds of $0.6 million from the issuance of shares under the Company s employee stock option plan exercised during the three months. Net cash used in financing activities was $2.4 million for the three months ended March 31, 2009, consisting principally of $2.5 million in dividends paid out, partially offset by proceeds from the issuance of shares under the Company s employee stock option plan and tax benefit on stock options exercised during the three months.

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

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 March 31, 2010 and 2009 revenues from time and material contracts constituted 54% and 56% 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 March 31, 2010 and 2009, revenues from fixed price application management and support engagements constituted 36% and 34% 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 March 31, 2010 and 2009, revenues from fixed price development contracts constituted 10% of total revenues.

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.

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.

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

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

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.

FORWARD LOOKING STATEMENTS

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

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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:

	March 31, 2010	December 31, 2009
	(in thousands)	
ASSETS		
Cash and cash equivalents	$ 100,785	$ 87,822
Short term investments	112,388	112,243
Total	**$ 213,173**	**$ 200,065**

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

Foreign Currency Risk

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

During the three months ended March 31, 2010, the Indian rupee has appreciated against the U.S. dollar by 1.52% as compared to the three months ended December 31, 2009. This rupee appreciation unfavourably impacted the Company s gross margin by 40 basis points, operating income by 58 basis points and net income by 55 basis points, each as a percentage of revenue. The Indian rupee denominated cost of revenues and selling, general and administrative expense was 47% and 61% 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. During the quarter ended March 31, 2010, the Company did not enter into foreign exchange forward contracts.

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ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company s management evaluated, with the participation of the Company s principal executive officers (the Chairman of the Board, Chief Executive Officer and Chief Financial Officer), the effectiveness of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934) as of the end of the period covered by this report. Based on that evaluation, the principal executive officers have concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There has been no change in the Company s internal control over financial reporting that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

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

The Company could be delisted by NASDAQ if it fails to add an independent director by August 29, 2010.

The Company received a notice of deficiency from the NASDAQ Stock Market (NASDAQ) on March 8, 2010. The non-compliance cited by NASDAQ is the result of the resignation of an independent director from the Company s Board of Directors resulting in non-compliance with NASDAQ Listing Rule 5605(b)(1), which requires the Company s Board of Directors to be comprised of a majority of independent directors. NASDAQ Listing Rule 5605 provides a 180-day cure period, as it applies in this case, for the Company to regain compliance with the independent director requirement. The Company has nominated an additional independent director for election at its annual meeting of shareholders on June 3, 2010, which is prior to the expiration of the NASDAQ deadline on August 29, 2010. However, if the Company fails to add an independent director, either at its annual meeting of shareholders or otherwise, prior to the deadline, NASDAQ could act to delist the Company from its exchange.

Other than as set forth above, there have been no material changes in the Company s risk factors as disclosed in the Company s annual report on Form 10-K for the year ended December 31, 2009.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. [Removed and Reserved.]

Item 5. Other Information.

None.

Item 6. Exhibits.

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

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Exhibits

Exhibit No.	Description
10.1	Employment Agreement, dated November 3, 2008, between the Company and Amit Chatterjee.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
31.3	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
32	Section 1350 Certification of Principal Executive Officers and Principal Financial Officer.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	SYNTEL, INC.
Date : May 06, 2010	/s/ Prashant Ranade Prashant Ranade, Chief Executive Officer and President
Date : May 06, 2010	/s/ Arvind Godbole Arvind Godbole, Chief Financial Officer & Chief Information Security Officer

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32	Section 1350 Certification of Principal Executive Officers and Principal Financial Officer.