

Patni Computer Systems LTD  
Form 20-F  
February 25, 2011  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

---

**FORM 20-F**

---

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2010**

**OR**

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

**OR**

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

Date of event requiring this shell company report . . . . .

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Edgar Filing: Patni Computer Systems LTD - Form 20-F

Commission file number 001-32692

---

**Patni Computer Systems Limited**  
(Exact name of Registrant as specified in its charter)

**Not applicable**  
(Translation of Registrant's name into English)

**Republic of India**  
(Jurisdiction of incorporation or organization)

**Akruti Softech Park, MIDC Cross Road No.21 Andheri (E), Mumbai 400 093, India +91 22 6693 0500**  
(Address of principal executive offices)

**Surjeet Singh, Chief Financial Officer, +91 22 6693 0500, surjeet.singh@patni.com**  
**Akruti Softech Park, MIDC, Cross Road No. 21, Andheri (E), Mumbai 400 093, India**  
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

---

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing two equity shares, par value Rs. 2 per share. Equity shares, par value Rs. 2 per share*	New York Stock Exchange

\* Not for trading but only in connection with Registration of the ADSs

Securities registered or to be registered pursuant to Section 12(g) of the Act.

**None**  
(Title of Class)

(Title of Class)

---

# Edgar Filing: Patni Computer Systems LTD - Form 20-F

## Table of Contents

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**Not applicable**  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Equity shares: 131,419,080

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Edgar Filing: Patni Computer Systems LTD - Form 20-F

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued  
by the International Accounting Standards Board

Other

If  Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

---

Table of Contents

**TABLE OF CONTENTS**

**PART - I**

<u>ITEM 1.</u>	<u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	4
<u>ITEM 2.</u>	<u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	4
<u>ITEM 3.</u>	<u>KEY INFORMATION</u>	4
<u>ITEM 4.</u>	<u>INFORMATION ON THE COMPANY</u>	19
<u>ITEM 4A.</u>	<u>UNRESOLVED STAFF COMMENTS</u>	38
<u>ITEM 5.</u>	<u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	38
<u>ITEM 6.</u>	<u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	57
<u>ITEM 7.</u>	<u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	71
<u>ITEM 8.</u>	<u>FINANCIAL INFORMATION</u>	74
<u>ITEM 9.</u>	<u>THE OFFER AND LISTING</u>	75
<u>ITEM 10.</u>	<u>ADDITIONAL INFORMATION</u>	79
<u>ITEM 11.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	97
<u>ITEM 12.</u>	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	97

**PART II**

<u>ITEM 13.</u>	<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	97
<u>ITEM 14.</u>	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	97
<u>ITEM 15.</u>	<u>CONTROLS AND PROCEDURES</u>	98
<u>ITEM 16A.</u>	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	101
<u>ITEM 16B.</u>	<u>CODE OF ETHICS</u>	101
<u>ITEM 16C.</u>	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	101
<u>ITEM 16D.</u>	<u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	101
<u>ITEM 16E.</u>	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASES</u>	101
<u>ITEM 16F.</u>	<u>CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT.</u>	102
<u>ITEM 16G.</u>	<u>CORPORATE GOVERNANCE</u>	102

**PART III**

<u>ITEM 17.</u>	<u>FINANCIAL STATEMENTS</u>	107
<u>ITEM 18.</u>	<u>FINANCIAL STATEMENTS</u>	107
<u>ITEM 19.</u>	<u>EXHIBITS</u>	108

Table of Contents

**CURRENCY OF PRESENTATION AND CERTAIN DEFINED TERMS**

Unless otherwise stated in this Annual Report or unless the context otherwise requires, references in this Annual Report on Form 20-F, or Annual Report to:

- we, us, , our , our company and Patni are to Patni Computer Systems Limited and its consolidated subsidiaries;
- India are to the Republic of India;
- Japanese Yen or JPY are to the legal currency of Japan; and all references to
- Euro are to the legal currency of the European Union;
- AUD are to the legal currency of the Commonwealth of Australia;
- GBP are to the legal currency of the United Kingdom of Great Britain and Northern Ireland;
- Singapore Dollar and SGD are to the legal currency of Singapore;
- Indian rupees, rupees or Rs. are to the legal currency of India;
- Mexican Pesos or MXN are to the legal currency of Mexico;
- CNY are to the legal currency of China;

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

- U.S. dollars, dollars or US \$ or \$ are to the legal currency of the United States; and
- a particular fiscal year are to our fiscal year ended December 31 of such year.

The financial statements have been prepared using U.S. dollars as the reporting currency. In addition, for your convenience, this Annual Report contains translations of certain Indian rupee amounts into U.S. dollar amounts which should not be construed as a representation that those Indian rupee or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Indian rupees, as the case may be, at any particular rate, the rate stated below, or at all.

Except as otherwise stated in this Annual Report, all translations from Indian rupees to U.S. dollars contained in this Annual Report have been based on the noon buying rate published by the Federal Reserve Board on December 31, 2010 in Indian rupees, which was Rs. 44.80 per \$ 1.00.

Information contained in our websites, including our corporate website, [www.patni.com](http://www.patni.com), is not part of this Annual Report.

### **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Annual Report contains forward-looking statements. The forward-looking statements are contained principally in the sections entitled Key Information Risk Factors, Information on the Company, and Operating and Financial Review and Prospects . These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include statements about:

- the potential acquisition of our shares and a controlling interest in us by a third party in the same business as us and the risks of integration;
- our ability to attract and retain clients;
- the anticipated benefits and risks associated with our business strategy, including those relating to our current and future service offerings;
- our future operating results;
- the anticipated benefits and risks of our strategic customer relationships and acquisitions;

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

- the anticipated size or trends of the market segments in which we compete and the anticipated competition in those markets;
- government regulation and the outcome of any tax, legal or regulatory review, action or litigation; and
- our future capital requirements and our ability to satisfy our capital needs.

In some cases, you can identify forward-looking statements by terminology such as may, will, could, should, expect, plan, intend, and believe, estimate, predict, potential or continue, the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined in Item 3.D. Key Information Risk Factors. These factors may cause our actual results to differ materially from any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievement.



Table of Contents

Forward-looking statements speak only as of the date they are made. Other than required by law, we do not undertake any obligation to update them in light of new information or future developments.

This Annual Report includes statistical data about the IT industry that comes from information published by sources including Gartner, Inc., or Gartner, a provider of market information and strategic information for the IT industry, and the National Association of Software and Service Companies, or NASSCOM, an industry trade group. This type of data represents only the estimates of Gartner, NASSCOM, and other sources of industry data. In addition, although we believe that data from these sources is generally reliable, this type of data is inherently imprecise. We caution you not to place undue reliance on this data.

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**3.A. Selected financial data**

*The selected consolidated historical financial data set forth below should be read in conjunction with our consolidated financial statements, the notes to those statements and Item 5. Operating and Financial Review and Prospects included elsewhere in this Annual Report. The selected data presented below under the captions Statement of Income Data , Balance Sheet Data and Cash Flow Data , as of and for each of the years in the five-year period ended December 31, 2010, are derived from our audited consolidated financial statements (except for cash dividend per equity share) and have been prepared and presented in accordance with U.S. GAAP. The consolidated financial statements as of December 31, 2009 and 2010, and for each of the years in the three-year period ended December 31, 2010, and the report of our independent registered public accounting firm thereon, are included elsewhere in this Annual Report. Historical results are not necessarily indicative of the results to be expected for any future period.*



Edgar Filing: Patni Computer Systems LTD - Form 20-F

Table of Contents

	Fiscal Year ended December 31,				
	2006	2007	2008	2009	2010
	(in thousands, except share data and per share)				
<b>Statement of Income Data</b>					
Net Revenues	\$ 578,851	\$ 662,912	\$ 718,884	\$ 655,918	\$ 701,699
Cost of revenues	373,966	450,085	491,266	421,309	455,947
Gross Profit	\$ 204,885	\$ 212,827	\$ 227,618	\$ 234,609	\$ 245,752
Selling, general and administrative	106,472	116,260	131,056	122,010	134,106
Provision for doubtful debts and advances	1,191	1,182	1,626	2,267	619
Foreign exchange (gain) loss, net	2,748	(23,351)	18,359	9,693	(22,009)
Operating Income	\$ 94,474	\$ 118,736	\$ 76,577	\$ 100,639	\$ 133,036
Other Income / (Expense) Interest and dividend income	10,088	12,540	13,002	11,223	13,393
Interest expense	(2,840)	(3,592)	(1,744)	(1,494)	(1,053)
Interest expense reversed			6,497	2,808	1,064
Gain on sale of investments, net	1,679	6,370	9,732	9,468	5,603
Other income (expenses), net	3,541	1,706	2,561	1,894	583
Equity in losses of affiliates					(110)
Income before income taxes	\$ 106,942	\$ 135,760	\$ 106,625	\$ 124,538	\$ 152,516
Income taxes	47,692	21,784	5,204	4,759	19,336
Net income	\$ 59,250	\$ 113,976	\$ 101,421	\$ 119,779	\$ 133,180
<b>Earnings per share, basic &amp; diluted</b>					
Basic	\$ 0.43	\$ 0.82	\$ 0.75	\$ 0.93	\$ 1.02
Diluted	\$ 0.43	\$ 0.82	\$ 0.75	\$ 0.92	\$ 0.99
<b>Weighted average number of common shares used in computing earnings per share</b>					
Basic	137,957,477	138,660,785	135,590,677	128,254,916	130,101,422
Diluted	138,904,860	139,569,933	135,760,422	130,241,085	133,848,374
Cash dividend per equity share (\$)	\$ 0.057	\$ 0.086	\$ 0.082	\$ 0.072	\$ 0.065
Cash dividend per equity share (Rs.)	3.00	3.00	3.00	3.00	3.00
Special Cash dividend per equity share (\$)					\$ 1.34
Special Cash dividend per equity share (Rs.)					63.00

	Fiscal Year ended December 31,				
	2006	2007	2008	2009	2010
	(in thousands)				
<b>Balance Sheet Data</b>					
Cash and cash equivalents	\$ 46,510	\$ 32,626	\$ 60,138	\$ 63,459	\$ 78,734
Investments in securities	246,016	301,152	248,299	375,858	283,637
Total assets	640,341	856,226	765,342	901,181	872,784
Capital lease obligations	692	604	360	203	219
Total shareholders equity	508,593	680,964	570,956	747,034	699,835

	Fiscal Year ended December 31,				
	2006	2007	2008	2009	2010
	(in thousands)				
<b>Cash Flow Data</b>					
Net cash provided by / (used in):					
Operating activities	\$ 59,091	\$ 111,272	\$ 149,343	\$ 137,206	\$ 136,574
Investing activities	(155,426)	(130,036)	(35,531)	(132,699)	86,590

Edgar Filing: Patni Computer Systems LTD - Form 20-F

Financing activities	(7,106)	(8,682)	(64,589)	(3,150)	(205,603)
Capital expenditures on property, plant and equipment (included in investing activities)	(48,620)	(61,891)	(43,362)	(18,983)	(11,583)

Table of Contents**Exchange rates**

Fluctuations in the exchange rate between the Indian rupee and the U.S. dollar will affect the U.S. dollar equivalent of the Indian rupee price of our equity shares on the Indian Stock Exchanges and, as a result, will likely affect the market price of the American Depository Shares, or ADSs, in the United States, and vice versa. Such fluctuations will also affect the U.S. dollar conversion by the depository of any cash dividends paid in Indian rupees on our equity shares represented by the ADSs.

The following table sets forth, for the fiscal years indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the average rate published by the Federal Reserve Board of New York in Indian rupees.

<b>Year</b>	<b>Average</b>	<b>High</b>	<b>Low</b>	<b>Period-End</b>
2006	45.19	46.83	43.89	44.11
2007	41.19	44.49	38.48	39.41
2008	43.39	50.12	39.12	48.58
2009	48.33	51.96	46.00	46.40
2010	45.65	47.49	43.90	44.80
2011(through February 18, 2011)	45.50	45.92	44.59	45.10

The following table sets forth the high and low exchange rates for the previous six months in Indian rupees based on the noon buying rates published by the Federal Reserve Board:

	<b>High</b>	<b>Low</b>
August 2010	47.02	45.70
September 2010	46.82	44.56
October 2010	44.55	44.05
November 2010	45.83	43.90
December 2010	45.54	44.70
January 2011	45.83	44.59
February 2011 (through February 18, 2011)	45.66	45.10

On February 18, 2011 the noon buying rate published by the Federal Reserve Board was Rs.45.10 per \$ 1.

**3.B. Capitalization and indebtedness**

Not applicable.

**3.C. Reasons for the offer and use of proceeds**

Not applicable.

### **3.D. Risk factors**

*Investors should carefully consider all of the information set forth in this Annual Report and the following risk factors that affect us and our industry. The risks below are not the only ones we face. Additional risks not currently known to us or that we presently deem immaterial may also affect our business operations. Our business, financial condition or results of operations could be materially or adversely affected by any of these risks. This Annual Report also contains forward-looking statements that involve risks and uncertainties. Our results could materially differ from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face as described below and elsewhere. See Special Note Regarding Forward-Looking Statements.*

#### **Risks Related to our Operations**

*Our revenues are highly dependent on a limited number of clients and the loss of any one of our major clients could adversely affect our revenues.*

We derive a significant portion of our revenues from a limited number of clients in a few select industries. In 2008, 2009 and 2010 our top two clients, accounted for 20.5%, 22.2% and 21.8% of our revenues, respectively and during the same period our top ten clients accounted for 45.6%, 49.7% and 48.8% of our revenues, respectively. As a result of our reliance on a limited number of clients, we may face pricing and other competitive pressures. The volume of work performed for specific clients is likely to vary from year to year, especially since we are not the exclusive external service provider for our clients. In addition, there are a number of factors, other than our performance, that could cause the loss of a client and that may not be predictable. For example, our clients may decide to reduce spending on IT services or sourcing from us due to a challenging economic

Table of Contents

environment and other factors, internal and external, relating to their business such as restructuring or supplier rationalizations. The loss of any one of our major clients, a decrease in the volume of work they outsource to us or a decrease in the price at which we sell our services to them could adversely affect our revenues.

***Our client contracts, including those with our two largest customers, typically can be terminated without cause and with little or no notice or penalty, which could negatively impact our revenues and profitability.***

Our clients typically retain us through non-exclusive master services agreements, or MSAs. Most of our client project contracts, including those that are on a fixed-price and fixed-price service level agreement, or SLA, basis, can be terminated with or without cause, with 0 to 90 days notice and without termination-related penalties. Our MSAs typically do not include any commitment by our clients to give us a specific volume of business or future work. Additionally, certain of our MSAs do not require the client to make payments for any services or work reasonably deemed unacceptable to the client. Our business is dependent on the decisions and actions of our clients, many of which are outside our control, which might result in the termination of a project or the loss of a client and we could face liabilities as a result of such termination. Our clients may demand price reductions, change their outsourcing strategy by limiting the number of suppliers they use, moving more work in-house or to our competitors or replacing their existing software with packaged software supported by licensors. Any of these decisions or actions could adversely affect our revenues and profitability.

***Our revenues are highly dependent on clients located in the United States and Europe. Economic slowdowns or factors that affect the economic health of the United States and Europe may adversely affect our business.***

In 2008, 2009 and 2010, approximately 75.9%, 78.9% and 79.8% of our revenues, respectively were derived from clients located in the United States and 15.7%, 12.7% and 11.4% of our revenues, respectively were derived from clients located in Europe. If the United States or European economies continue to weaken or slowdown and conditions in the financial markets continue to deteriorate, pricing for our services may be depressed and our customers may reduce or postpone their technology spending significantly, which may in turn lower the demand for our services and negatively affect our revenues and profitability. In addition, if we are unable to successfully anticipate changing economic and political conditions affecting the industries and markets in which we operate, we may be unable to effectively plan for diversification or respond by other mechanisms to those changes, and our business could be negatively affected.

***Our clients operate in a limited number of industries. Factors that adversely affect these industries or IT spending by companies within these industries may adversely affect our business.***

We derive a large proportion of our revenues from clients which operate in a limited number of industries. In 2008, 2009 and 2010, we derived 24.7%, 29.7% and 30.3% of our revenues, respectively from the insurance industry, 28.9%, 29.0% and 30.3% of our revenues, respectively from the manufacturing retail and distribution industry, 17.9%, 13.5% and 11.2% of our revenues, respectively from the communications, media and utilities industry, and 12.8%, 12.8% and 11.6% of our revenues, respectively from the financial services industry. The ongoing crisis in the financial and credit markets, particularly, in the United States and Europe, has led to a significant change in the financial services industry, with the United States federal government and other national governments being forced to take over or provide financial support to leading financial institutions and with leading investment banks going bankrupt or being forced to sell themselves in distressed circumstances. Significant changes in the financial services industry or any of the other industries on which we focus, or a significant consolidation in any such industry, may reduce the demand for our services and negatively affect our revenues and profitability. Any significant decrease in IT services spending by clients in these industries or other industries from which we derive significant revenues in the future may reduce the demand for our services. Further, any significant decrease in the growth of the insurance, manufacturing, retail and distribution, financial services or communications,

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

media and utilities industries, or significant consolidation in those industries, or any decrease in growth or consolidation in other industry segments in which we operate, may reduce the demand for our services.

***We face intense competition for employees in our market. Our success depends in large part upon our highly skilled software professionals and our ability to attract and retain these personnel.***

Our ability to execute projects and to obtain new clients depends largely on our ability to attract, train, motivate and retain highly-skilled software professionals, particularly project managers and other mid-level professionals. Our attrition rates were, 20.0%, 15.4% and 25.9% in 2008, 2009 and 2010. We define our attrition rate as the ratio of the number of employees who have left us during a defined period to the average number of employees who are on our payroll during such period.

We invest in training the professionals whom we hire to perform the services we provide. These professionals are often targeted by the lateral recruitment efforts of our competitors. If we cannot hire and retain additional qualified personnel, our ability to bid on and obtain new projects may be impaired and our revenues could decline. In addition, we may not be able to expand our business effectively. We believe that there is significant worldwide competition for software professionals with the skills necessary to perform the services we offer, including from non-Indian, international service providers. Additionally, we may not be able to redeploy and retrain our software professionals to keep pace with continuing changes in technology, evolving standards and changing client preferences.



Table of Contents

*Our revenues, expenses and profits are difficult to predict and can vary significantly from quarter to quarter. This could cause the market value of our equity shares and the ADSs to decline.*

Our quarterly operating results may vary significantly from quarter to quarter. Therefore, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as an indication of our future performance. It is possible that in the future some of our quarterly results of operations may be below the expectations of market analysts and our investors, which could lead to a significant decline of the market value of our equity shares and the ADSs.

As a large part of any quarter's revenues are derived from existing customers, revenue growth can vary due to project start and stops and customer-specific situations. Operating income variation is due to various factors such as changes in compensation, which are typically effected in the second quarter and reduce our operating margin in such quarter; changes in our use of onsite subcontractors, with higher usage in any quarter leading to lower operating income; changes in the ratio of onsite and offshore services, with higher offshore revenues enhancing the particular quarter's operating income; changes in utilization of resources, with lower utilization leading to reduction in operating income; and changes in foreign exchange rates. We also experience variations in immigration costs.

Factors which affect the fluctuation of our revenues, expenses and profits include:

- variations, expected or unexpected, in the duration, size, timing and scope of our projects, particularly with our major clients;
- changes in our pricing policies or those of our clients or competitors;
- the proportion of services that we perform in our development centers in India as opposed to outside India;
- the effect of seasonal hiring patterns, unanticipated attrition and the time required to train and productively utilize our new employees, particularly software professionals;
- the size and timing of expansion of our facilities;
- unanticipated cancellations, non-renewal of our contracts by our clients, contract terminations or deferrals of projects; and

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

- changes in our employee utilization rate, which is affected by various factors.

A significant part of our expenses, particularly those related to personnel and facilities, are fixed in advance of any particular quarter. As a result, unanticipated variations in the number and timing of our projects or employee utilization rates may cause significant variations in our operating results in any particular quarter. There are also a number of factors other than our performance that are not within our control that could cause fluctuations in our operating results from quarter to quarter. These include:

- the duration of tax holidays or exemptions and the availability of other Government of India incentives;
- the outcome of any tax, legal or regulatory review, action or litigation;
- currency exchange rate fluctuations, particularly when the rupee appreciates in value against the U.S. dollar since the majority of our revenues are in U.S. dollars and a significant part of our expenses are in rupees; and
- other general economic factors.

### ***Consolidation in the industries that we serve could adversely affect our business.***

Companies in the industries that we serve may seek to achieve economies of scale and other synergies by combining with or acquiring other companies. If two or more of our current clients merge or consolidate and combine their operations, it may decrease the amount of work that we perform for these clients. If one of our current clients merges or consolidates with a company that relies on another provider for its consulting, systems integration and technology, or outsourcing services, we may lose work from that client or lose the opportunity to gain additional work. The increased market power of larger companies could also increase pricing and competitive pressures on us. Any of these possible results of industry consolidation could adversely affect our business.

### ***The proposed acquisition of equity shares from our major shareholders could have an adverse effect on our business and the trading price of our equity shares and ADSs.***

On January 10, 2011, Pan-Asia iGATE Solutions and iGATE Global Solutions Limited, or the Acquirers, subsidiaries of iGATE Corporation, a U.S. corporation listed on the Nasdaq Stock Market, or iGATE, announced, that they had entered into definitive agreements to purchase shares representing in the aggregate 63.0% of our equity capital held by our major shareholders, comprising the Promoter group (Mr. Narendra Patni, Mr. Gajendra Patni and Mr. Ashok Patni) and General Atlantic Mauritius Limited, at a purchase price of Rs. 503.50 (\$ 11.3) per share. The proposed acquisition of such shares is subject to regulatory approvals and other closing conditions.

Table of Contents

Additionally, on January 11, 2011, the Acquirers and iGATE made a public announcement for an open offer to acquire an additional 20.6% of our equity capital in accordance with the takeover code requirements under the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, as amended, or the Takeover Code, and the tender offer requirements under the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations of the U.S. Securities and Exchange Commission.

Depending on the number of shares tendered and accepted in the open offer, upon the completion of such open offer, the Acquirers and iGATE may own up to 83.6% of our equity capital. Under the recently amended Indian regulations and listing agreements with the Indian stock exchanges, we are required to maintain a minimum public shareholding of 25%, and equity shares held by, among others, any member of our promoter or promoter group or a custodian against which ADRs/GDRs have been issued overseas are not considered a part of the public float. The Acquirers and iGATE have stated in the public announcement that they shall take necessary steps to facilitate compliance with the minimum public requirements under the relevant regulations, and have also stated that, subject to certain conditions, they may consider exploring the option to delist the shares of the Company.

In the public announcement, the Acquirers and iGATE have also stated that they reserve the right to streamline/restructure our operations, assets, liabilities and/or business, through an arrangement/reconstruction, restructuring, merger (including but not limited to merger with themselves or any of their subsidiaries), demerger/delisting of our shares and/or sale of assets at a later date. They have stated that such decisions will be taken by their and /or our respective board of directors in accordance with applicable law, pursuant to business requirements from time to time. iGATE has stated that Viscaria Limited, a company backed by funds advised by Apex Partners, will make an investment in iGATE in order to facilitate the acquisition. In addition, iGATE has stated that it has secured other financing to fund the purchase.

Pursuant to such agreements, until the completion of the share purchase transactions, certain changes were to be made to our board of directors. Accordingly, Mr. Gajendra K. Patni and Mr. William O. Grabe have resigned from our board of directors with effect from February 8, 2011, and Mr. Phaneesh Murthy and Mr. Shashank Singh have been appointed as additional directors with effect from February 8, 2011. Also, as stated in the public announcement for the open offer, upon completion under the share purchase agreement with the Promoter group (comprising Mr. Narendra Patni, Mr. Gajendra Patni and Mr. Ashok Patni), three nominees of such Promoter group will resign from our board of directors and the nominees of the Acquirers will be appointed as directors.

There is no assurance that the open offer process under the Takeover Code shall be completed in a timely manner or at all. There is also no assurance that the Acquirers and iGATE will facilitate compliance with our listing conditions, take any steps to restructure our business or seek to delist our shares. Such uncertainties could cause disruptions to our business, including affect our relationships with our customers, vendors and employees and also adversely affect our business, operations, financial results and the trading price of our equity shares and ADSs.

***We may not be able to successfully integrate our operations with iGATE's operations, which could cause our business to suffer.***

iGATE is an outsourcing provider of Information Technology, or IT, and IT-enabled operations solutions and services and caters to different geographies with its global delivery centers in India and offices across North America, Europe and Asia Pacific. iGATE has stated that it expects to realize synergies in its combination with us.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

We may face significant challenges in integrating our operations with iGate. The integration of operations would require significant attention from both the Companies' management teams and may impose substantial demands on our operations or other projects. The failure of the combined company, after the Acquisition, to meet the challenges involved in successfully integrating our operations or otherwise to realize any of the anticipated benefits of the combination could cause an interruption of, or a loss of momentum in, the activities of the combined company and could adversely affect our results of operations. In addition, the overall integration of the two companies may result in unanticipated problems, expenses, liabilities, competitive responses and loss of customer relationships, and may cause our stock price to decline. The difficulties in integrating the operations of the Companies may include, among other things:

- differences in cultures of the two organizations;
- difficulty in retaining key executive management and senior management staff;
- increase in attrition of the employees in general;
- retention of the current customer base;
- effectiveness of changes in sales approach and strategies;
- changes in delivery model, processes and methodologies;
- incurrence of additional and unforeseen costs associated with the integration of operations of the combined company; and
- regulatory, legal and taxation related constraints in integrating the operations.

Table of Contents

Any of these factors could cause delays or increase the costs of combining the companies which could adversely affect our operations, financial results and liquidity.

*iGATE's proposed acquisition may result in conflicts of interest between the two companies.*

Following the consummation of the open offer, and depending upon the number of shares tendered and accepted in the open offer process, iGATE will beneficially own between 63.0% and 83.6% of our equity capital. As iGATE will beneficially own more than a majority of our equity shares, it will have the ability to appoint a majority of our board or directors and control our actions. Our interests and the interests of our minority shareholders may conflict with that of iGATE and its shareholders and lenders, including those that have financed the proposed acquisition. In addition, following the consummation, our joint operations with iGATE, will be subject to regulation and potential limitations imposed by U.S. and Indian antitrust laws and Indian corporate laws.

Additionally, iGATE is financing its acquisition of a controlling stake of our shares through a combination of balance sheet cash, debt and an equity issuance. Our company has traditionally not had any long term debt, nor has iGATE. However, if iGATE issues any debt to repay part of its acquisition of our shares it may be reliant on our profits and dividends for its repayment. As a result, our controlling shareholder interests in the repayment of its debt and related obligations may conflict with minority shareholders interests in the Company.

*Our earnings may be adversely affected if we receive an adverse determination resulting from a pending tax review of our domestic or foreign operations.*

We face challenges from domestic and foreign tax authorities regarding the amount of current taxes due. These challenges include questions regarding the amount of deductions, transfer pricing and the allocation of income among various tax jurisdictions. To the extent we are able to prevail in matters for which accruals have been established or are required to pay amounts in excess of such accruals, our effective tax rate in a given financial statement period may be materially affected. Additionally, we operate in several countries and our failure to comply with the local tax regime may result in additional taxes, penalties and enforcement actions. To the extent we do not comply with tax-related regulations, our profitability will be adversely affected. See Item 5A- Operating and Financial Review and Prospects - Operating Results Taxes .

*We operate in a highly competitive environment and this competitive pressure on our business is likely to continue.*

We operate in a highly competitive environment and this competitive pressure on our business is likely to continue. The market for IT services is rapidly evolving and highly competitive. We expect that competition will continue to intensify. We face competition or competitive pressure from:

- Indian IT services companies, such as Tata Consultancy Services Limited, Infosys Technologies Limited, Wipro Limited, HCL Technologies Limited and Tech Mahindra;

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

- international IT services companies, such as Accenture, Cognizant Technology Solutions, Computer Sciences Corporation and Syntel;
- divisions of large multinational technology firms such as IBM, and Hewlett-Packard Company, Capgemini, Atos Origin and Logica;
- in-house IT departments of large corporations;
- other international, national, regional and local firms from a variety of market segments, including major international accounting firms, systems consulting and implementation firms, applications software firms, service groups of computer equipment companies, general management consulting firms, programming companies and temporary staffing firms;
- offshore service providers in other countries with low wage costs such as China and the Philippines, and countries in Eastern Europe and Latin America; and
- involvement of third party intermediaries who negotiate IT services and outsourcing contracts on behalf of their clients.

A number of our international competitors have set up operations in India. Further, a number of our international competitors with existing operations in India have ramped up their presence as offshore operations in India have become an important element of their delivery strategy.

Table of Contents

Many of our competitors have significantly greater financial, technical and marketing resources and generate greater revenues than we do. Clients may prefer vendors that have delivery centers located globally or are based in countries that are more cost-competitive than India. Therefore, we cannot assure you that we will be able to retain our clients while competing against such competitors. We believe that our ability to compete also depends in part on a number of factors beyond our control, including the ability of our competitors to attract, train, motivate and retain highly skilled technical employees, the price at which our competitors offer comparable services and the extent of our competitors responsiveness to client needs.

*Any inability to manage our growth could disrupt our business and reduce our profitability.*

Our revenues have grown from \$578.9 million in 2006 to \$701.7 million in 2010, representing a CAGR of 4.9%. Our total number of employees was 12,804 as of December 31, 2006 and 17,642 as of December 31, 2010.

Our operations have also expanded through the development, enhancement and acquisition of new service offerings and industry expertise, and the broadening of our geographic presence. Specifically, we:

- augmented our offerings in our service lines in business process outsourcing, product engineering, infrastructure management services and quality assurance;
- gained expertise and operations in the provision of services to clients in the communications, media and utilities industry through our acquisition of Patni Telecom Solutions, Inc., or Patni Telecom (formerly Cymbal Corporation, or Cymbal) and Logan Orviss International, or Logan Orviss;
- expanded our expertise and market specific services in the life sciences practice through our acquisition of Patni Life Sciences Inc. (formerly Taratec Development Corporation, or Taratec);
- acquired intellectual property rights to software;
- expanded our business process outsourcing capabilities by undertaking a new line of business as a Third Party Administrator (TPA) in the insurance and healthcare sector through our acquisition of CHCS Services Inc.;
- expanded our expertise and operations in our product engineering technology practices;

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

- enhanced our operations in Europe and Asia Pacific; and
- expanded our facilities in India and outside India.

We expect our future growth to place significant demands on both our management and our resources. This will require us to continuously evolve and improve our operational, financial and internal controls across the organization. In particular, continued expansion increases the challenges we face in:

- recruiting, training and retaining sufficient skilled technical, sales and management personnel;
- adhering to our high quality and process execution standards;
- maintaining high levels of client satisfaction;
- creating and managing economies of scale;
- managing a larger number of clients in a greater number of industry sectors;
- integrating expanded operations while preserving our culture, values and entrepreneurial environment; and
- developing and improving our internal administrative infrastructure, particularly our financial, operational, communications and other internal systems.

Any inability to manage our growth may have an adverse effect on our business, results of operations and financial condition.

***We may face difficulties in providing services within our industry and technology practices, offering new and existing service lines and managing increasingly large and complex projects, which could lead to clients discontinuing their work with us.***

We have been expanding the nature and scope of our engagements by extending the breadth of our practices and the services we offer. The success of our new practices and service offerings is dependent, in part, upon demand for such services by our existing and new clients and our ability to meet this demand in a cost-competitive and effective manner. We cannot be certain that we will be able to attract existing and new



clients for such new services or effectively meet our clients' needs.

We intend for the increased breadth of our practices and service offerings to result in larger and more complex projects for our clients. To achieve this result, we need to establish closer relationships with our clients and develop a thorough understanding of their operations. Our ability to establish such relationships will depend on the proficiency of our management personnel, software professionals and, if necessary subcontractors, as well as other competitive factors such as our performance and delivery capability. Larger and more complex projects may involve multiple engagements or stages, and there is a risk that a client may choose not to retain us for additional stages or may cancel or delay additional planned engagements. Such cancellations or delays make it

Table of Contents

difficult to plan for project resource requirements, and failure to plan appropriately may have a negative impact on our business, results of operations and financial condition.

***Our business will suffer if we fail to keep pace with the rapid changes in technology in the industries on which we focus. We need to anticipate and develop new services and enhance existing services in order to keep our clients satisfied.***

The IT services market is characterized by rapid technological changes, evolving industry standards, changing client preferences and new product and service introductions. Our future success will depend on our ability to anticipate these advances and develop new service offerings to meet client needs. We may not be successful in anticipating or responding to these advances on a timely basis or, if we do respond, the services or technologies we develop may not be successful in the marketplace. Furthermore, services or technologies that are developed by our competitors may render our services non-competitive or obsolete.

***We have undertaken and may continue to pursue strategic acquisitions or partnerships, which may prove to be difficult to integrate and manage or may not be successful, and may result in increased expenses or write-offs.***

We have pursued and may continue to pursue strategic acquisition and partnership opportunities to enhance our capabilities and address gaps in industry expertise, technical expertise and geographic coverage. It is possible that we may not identify suitable acquisition or investment candidates or joint venture partners, or if we do identify suitable candidates or partners, we may not complete those transactions on terms commercially acceptable to us or at all. The inability to identify suitable acquisition targets or investments or joint ventures or the inability to complete such transactions may adversely affect our competitiveness and our growth prospects.

If we acquire another company, we could have difficulty in assimilating such company's personnel, operations, products, services, technology and software into our operations. In addition, the key personnel of the acquired company may decide not to work with us. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses. Further, any such acquisition, merger or joint venture that we attempt, whether or not completed, or any media reports or rumors with respect to any such transactions, may adversely affect the value of our equity shares and the ADSs.

***We have invested substantial cash assets in new facilities and physical infrastructure, and our profitability could be reduced if our business does not grow proportionately.***

As of December 31, 2010, we had spent approximately \$ 101.3 million on our knowledge parks. The estimated amounts (net of advances) remaining to be executed on contracts in relation to capital expenditure for the construction of various facilities, aggregated approximately to \$ 54.5 million as of December 31, 2010 which will be executed over a three year period. However, we may not receive the benefits that we expect from our investment in these facilities. These expansions have and will increase our fixed costs. If we are unable to grow our business and revenues proportionately, our profitability will be reduced. See Item 4.D. Information on the Company Property, plant and equipment .

***We are subject to risks arising from exchange rate fluctuations.***

Although our functional currency is the Indian rupee, we transact a significant portion of our business in several other currencies, particularly the U.S. dollar. Our exchange rate risk primarily arises from our foreign currency revenues, receivables, payables and other foreign currency assets and liabilities. We expect that a majority of our revenues will continue to be generated in U.S. dollars for the foreseeable future. In 2008, 2009 and 2010 our dollar denominated revenues represented 80.7% , 84.0% and 85.3% of our total revenues respectively.

A significant portion of our expenses, comprising the cost of revenues and selling, marketing and general administrative expenses, are and will continue to be denominated and incurred in Indian rupees. In 2008, 2009 and 2010 rupee costs represented 40.8%, 37.5% and 38.8% of revenues respectively. Therefore, changes in the exchange rate between the rupee and other currencies, especially with respect to the U.S. dollar, may have a material adverse effect on our revenues, other income, cost of services, operating costs and net income, which may in turn have a negative impact on our business, operating results and financial condition. On December 31, 2010, the exchange rate per U.S. dollar was Rs. 44.80 compared to Rs. 46.40 on December 31,2009 and Rs. 48.58 on December 31, 2008. On February 18, 2011 the exchange rate per US \$ was Rs 45.10. The exchange rate between the rupee and the dollar has fluctuated substantially in recent years and may continue to remain volatile in the future.

We seek to reduce the effect of exchange rate fluctuations on our operating results by purchasing derivative instruments such as foreign exchange forward contracts, net purchased options and net written options. As of December 31, 2010 we had outstanding forward contracts in the amount of \$ 314.3 million, JPY 500.0 million (\$ 6.1 million), and GBP 8.7 million (\$ 13.5 million). However, in spite of such contracts we may not be able to insulate ourselves adequately from foreign currency exchange risks. In addition, any such contracts may not perform effectively as a hedging mechanism or we may incur losses in such derivative instruments which may adversely affect our profits in a quarter or a financial year. In 2010 we had a net foreign exchange gain of \$22.0 million and in 2008 and 2009 we had a net foreign exchange loss \$18.4 million and \$ 9.7 million See Item 11.Quantitative and Qualitative Disclosures about Market Risk Components of Market Risk - Exchange Rate Risk .

Table of Contents

***Our success depends in large part upon our senior management and key personnel and our ability to attract and retain them.***

We are highly dependent on our Chief Executive Officer, Chief Financial Officer and other members of the executive leadership team. Our future performance depends to a significant degree upon the continued service of the key members of our management team, as well as marketing, sales and technical personnel, and our ability to attract and retain new management and other personnel. We do not maintain key man life insurance on any of our executive officers or significant employees. Competition for personnel is intense, and there can be no assurance that we will be able to retain our key employees or that we will be successful in attracting and retaining new personnel in the future. The loss of any one or more of our key personnel or the failure to attract and retain key personnel could have a material adverse effect on our business, results of operations and financial condition.

***Our revenues could be significantly affected if the governments in the United States or other countries in which our customers are based restrict companies from outsourcing work to non-domestic corporations.***

Offshore outsourcing has become a politically sensitive topic in the United States and Europe due to its perceived association with the loss of jobs in such countries. In the United States, in particular, there has been increasing political and media attention on these issues following the growth of offshore outsourcing. Current or prospective clients may elect to perform services we offer themselves or may be discouraged from transferring these services to offshore providers to avoid any negative perception that may be associated with using an offshore provider. These trends could harm our ability to compete effectively with competitors that operate primarily out of facilities located in the United States. A variety of U.S. federal and state legislation has been proposed that, if enacted, could restrict or discourage U.S. companies from outsourcing their services to companies outside the United States. In addition, it is possible that legislation could be adopted that would restrict U.S. private sector companies that have federal or state government contracts from outsourcing their services to offshore service providers. Since most of our clients are located in the United States, any expansion of existing laws or the enactment of new legislation restricting offshore outsourcing by U.S. companies could adversely impact our ability to do business.

***Our inability to complete fixed-price contracts within budget and at the required level of performance could reduce our revenues and profitability.***

We derived, 36.0%, 40.6% and 44.6% of our revenues from fixed-price (including SLA) contracts in 2008, 2009 and 2010. We bear the risk of cost overruns, completion delays and wage inflation in connection with fixed-price projects, any of which may result in a decrease in our margins from work performed on fixed-price contracts. Our revenues from fixed-price contracts also include revenues from fixed-price SLAs, which are conditioned upon our meeting predetermined performance levels. Any failure to meet such performance levels could result in a reduction in our revenues. Any failure to accurately estimate the resources and time required for completion of a project or any failure to complete our contractual obligations at the committed performance level could adversely affect our revenues and profitability.

***Our inability to collect our receivables from billed or unbilled services to our clients, could adversely affect our results of operations and cash flows.***

Our business depends on our ability to successfully recover payment from our clients of the amounts they owe us for work performed. The allowance for doubtful accounts is determined by evaluating the relative credit-worthiness of each customer, historical collections experience

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

and other information, including the aging of the receivables. There is no guarantee that we will accurately assess the creditworthiness of our clients. Timely collection of client balances also depends on our ability to complete our contractual commitments and bill and collect our contracted revenues. If we are unable to meet our contractual requirements, we might experience delays in collection of and/or be unable to collect our client balances, and if this occurs, our results of operations and cash flows could be adversely affected.

***Our ability to expand our business and procure new contracts or enter into beneficial business arrangements may be affected by non-competition clauses in our agreements with existing clients or business partners.***

Certain of our existing MSAs and other agreements have non-competition clauses, which restrict us from providing services to competitors of our existing clients or entering new markets where a business partner may already have a presence. Many of our MSAs contain clauses that restrict our employees working for a particular client from providing services to a competitor of that client. Such clauses may restrict our ability to offer services to clients in a specific industry in which we have acquired expertise and may adversely affect our business and growth.

***We may be liable to our clients for damages caused by system failures or breaches of security obligations or unsatisfactory performance of services.***

Many of our contracts involve projects that are critical to the operations of our clients' businesses. Further, our client contracts may require us to comply with certain security obligations including maintaining network security and back-up data, ensuring our network is virus free and verifying the integrity of employees who work with our clients by conducting background checks. Any failure in a client's system or breach of security relating to the services we provide to the client could damage our reputation or result in a claim for substantial damages

Table of Contents

against us. In addition, errors by our employees in the performance of services for a client, or poor execution of such services, could result in a client seeking damages from us. There is a risk that limitations of liability set forth in our service contracts may not be enforceable in all instances or will otherwise protect us from liability for damages in the event of such claims. Our insurance coverage may not be sufficient for all such claims or damages and additional insurance coverage may not be available in the future on reasonable terms or in amounts sufficient to cover large claims. Successful assertions of one or more large claims against us could have a significant adverse effect on our business, results of operations and financial condition.

***Our clients' proprietary rights may be misappropriated by our employees or subcontractors in violation of applicable confidentiality agreements.***

We require our employees and subcontractors to enter into non-disclosure arrangements to limit access to and distribution of our clients' intellectual property and other confidential information as well as our own. We can give no assurance that the steps taken by us in this regard will be adequate to enforce our clients' intellectual property rights. If our clients' proprietary rights are misappropriated by our employees or our subcontractors or their employees, in violation of any applicable confidentiality agreements or otherwise, our clients may consider us liable for that act and seek damages and compensation from us.

***We may be subject to third party claims of intellectual property infringement.***

Although there are currently no material pending or threatened intellectual property claims against us, infringement claims may be asserted against us in the future. Our contracts contain broad indemnity clauses, and under most of our contracts, we are required to provide specific indemnities relating to third party intellectual property rights infringement. In some instances, the amount of these indemnities may be greater than the revenues we receive from the client. If we become liable to third parties for infringing their intellectual property rights, we could be required to pay a substantial damage award and be forced to develop non-infringing technology, obtain a license or cease selling the applications or products that contain the infringing technology. We may be unable to develop non-infringing technology or to obtain a license on commercially reasonable terms, or at all. We may also be required to change our methodologies so as not to use the infringed intellectual property, which may not be technically or commercially feasible and may cause us to expend significant resources. Any claims or litigation in this area, irrespective of the outcome, could be time-consuming and costly and/or injure our reputation.

As the number of patents, copyrights and other intellectual property rights in our industry increases, we believe that companies in our industry will face more frequent infringement claims. Defending against these claims, even if not meritorious, could be expensive and divert our attention and resources from operating our Company.

***We have a limited ability to protect our intellectual property rights, and unauthorized parties may infringe upon or misappropriate our intellectual property.***

We rely on a combination of copyright, trademark and design laws, confidentiality procedures and contractual provisions to protect our intellectual property, including our brand identity. However, the laws of India may not protect intellectual property rights to the same extent as laws in the United States. Therefore, our efforts to protect our intellectual property may not be adequate and we may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights. Our competitors may independently develop

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

proprietary methodologies similar to ours or duplicate our products or services. Unauthorized parties may infringe upon or misappropriate our services or proprietary information. The misappropriation or duplication of our intellectual property could disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses. We may need to litigate to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could be time consuming and costly and the outcome of any such litigation cannot be guaranteed. For more information regarding our intellectual property, see Item 4.B. Information on the Company Business Overview - Intellectual Property.

### **Risks Related to Investments in Indian Companies and International Operations Generally.**

We are incorporated in India and a substantial portion of our assets and our employees are located in India. Consequently, our financial performance and the market price of our ADSs will be affected by changes in exchange rates and controls, interest rates, Government of India policies, including taxation policies, as well as political, social and economic developments affecting India.

*Immigration restrictions could limit our ability to expand our operations in the United States. We derive a high proportion of our revenues from clients located in the United States which may be affected materially by such restrictions*

Most of our employees are Indian nationals. The ability of our software professionals to work in the United States, Europe and in other countries depends on our ability to obtain the necessary visas and work permits. At present, the majority of our software professionals in the United States hold H-1B visas, a temporary visa which generally allows the employee to remain in the United States for up to six years while he or she remains an employee of the sponsoring firm, and L-1 visas, an intra company transfer visa allowing managers and executives or employees with specialized knowledge to stay temporarily in the United States so long as they have worked for

Table of Contents

an affiliated company abroad for at least one continuous year within the three years preceding the L-1 filing. An H-1B visa may be granted to certain categories of persons in several specialty occupations including software professionals such as our employees, so long as their compensation meets annually adjusted minimums and the position being filled qualifies as a specialty occupation. Those adjustments may force increases in the salaries we pay to our employees with H-1B visas, resulting in lower profit margins. Although there is currently no limit to new L-1 visas, there is a limit to the aggregate number of new H-1B visas that may be approved by the United States government in any fiscal year. We believe that the demand for H-1B visas will continue to be high. Further, the United States government has increased the level of scrutiny in granting these visas. This may lead to limits on the number of L-1 visas granted. Also, we expect close scrutiny of the L-1 visa process and there may be restrictions imposed on the issue of L-1 visas too. The U.S. immigration laws also require us to comply with other legal requirements including those relating to displacement and secondary displacement of U.S. workers and recruiting and hiring of U.S. workers, as a condition to obtaining or maintaining work visas for our software professionals working in the United States. Immigration laws in the United States and in other countries are subject to legislative change, as well as to variations in standards of application and enforcement due to political forces and economic conditions. It is difficult to predict the political and economic events that could affect immigration laws, or the restrictive impact they could have on obtaining or monitoring work visas for our software professionals. Our reliance on work visas for a significant number of software professionals makes us particularly vulnerable to such changes and variations. As a result, we may not be able to obtain a sufficient number of visas for our software professionals or may encounter delays or additional costs in obtaining or maintaining such visas.

***Wage pressures in India may prevent us from sustaining our competitive advantage and may reduce our profit margins.***

Wage costs in India have historically been significantly lower than wage costs in the United States and Europe for comparably skilled professionals until the last decade. This has been one of our competitive advantage over other developed countries to attract offshore business investments. However, wage increases in India may prevent us from sustaining this competitive advantage and may negatively affect our profit margins. We may need to increase the levels of our employee compensation more rapidly than in the past to retain talent. Unless we are able to continue to increase the efficiency and productivity of our employees, over the long term, wage increases may reduce our profit margins.

***Clients may seek to reduce their dependence on India for outsourced IT services or take advantage of the services provided in countries with labor costs similar to or lower than India.***

Clients who presently outsource a significant proportion of their IT services requirements to vendors in India may, for various reasons, including to diversify geographic risk, seek to reduce their dependence on one country. We expect that future competition will increasingly include firms with operations in other countries, especially those countries with labor costs similar to or lower than India, such as China, the Philippines and countries in Eastern Europe. Since wage costs in our industry in India are increasing, our ability to compete effectively will become increasingly dependent on our reputation, the quality of our services and our expertise in specific industries.

***Our net income would decrease if the Government of India reduces or withdraws tax benefits and other incentives it currently provides to us or otherwise increases our effective tax rate.***

Presently, we benefit from the tax holidays given by the Government of India for the export of IT services from specially designated software technology parks or STPs and special economic zones or SEZs in India. As a result of these incentives, which include a 10 year tax holiday from Indian corporate income taxes for the operation of most of our Indian facilities, our operations have been subject to relatively low tax liabilities. The tax benefits available for some of our facilities have expired and certain others will expire upon completion of 10 years from commencement of business of the eligible undertaking. However the tax holiday for the export of IT services from STP will expire on March 31, 2011. Consequently, we expect our effective tax rate to increase significantly.



In anticipation of the complete phase out of the tax holidays on March 31, 2011, we expect to continue to locate a portion of our new development centers in areas designated as SEZs. Development centers operating in SEZs will be entitled to certain income tax incentives of 100% of the export profits for a period of five years, 50% of such profits for next five years and 50% of the profits for further period of five years subject to satisfaction of certain capital investments requirements. The Indian government has proposed certain interpretive positions regarding the tax incentives applicable to SEZs. The Indian government has discussed making further changes in the SEZ policies which could be adverse to our operations.

Further, provisions of the Indian Income Tax Act 1961, as amended, or the Indian Income tax Act, are amended on an annual basis by enactment of the Finance Act. In addition, we may also be subject to changes in taxation resulting from the actions of applicable income tax authorities in India or from Indian tax laws that may be enacted in the future. For example, we may incur increased tax liability as a result of a determination by applicable income tax authorities that the transfer price applied to transactions involving our subsidiaries and the Company was not appropriate.

Any increase in our effective tax rate as a result of the expiration of tax benefits we currently enjoy, changes in applicable tax laws or the actions of applicable income tax or other regulatory authorities could

Table of Contents

materially reduce our profitability. For more information, See Item 5.A. Operating and Financial Review and Prospects Operating Results Taxes .

***Any disruption in the supply of power, IT infrastructure and telecommunications lines to our facilities could disrupt our business process or subject us to additional costs.***

Any disruption in basic infrastructure, including the supply of power, could negatively impact our ability to provide timely or adequate services to our clients. We rely on a number of telecommunications service and other infrastructure providers to maintain communications between our various facilities in India and our clients' operations in the United States and elsewhere. Telecommunications networks are subject to failures and periods of service disruption which can adversely affect our ability to maintain active voice and data communications among our facilities and with our clients. Such disruptions may cause harm to our clients' business. We do not maintain business interruption insurance and may not be covered for any claims or damages if the supply of power, IT infrastructure or telecommunications lines is disrupted. This could disrupt our business process or subject us to additional costs.

***There are certain differences in shareholder rights and protections between the laws of India and the United States and between governance standards for a U.S. public company and a foreign private issuer such as us.***

We are incorporated in India and investors should be aware that there are certain differences in shareholder rights and protections under the laws of India and the United States. There are also certain differences in the governance standards for a U.S. company and those applicable to a foreign private issuer such as us. A U.S. investor should consider such differences in shareholder rights and governance.

***In certain circumstances, our ability to acquire companies organized outside India may require the approval of the Government of India and/or the Reserve Bank of India and we may fail to obtain such approvals in a timely manner or at all.***

As part of our strategy, we intend to acquire companies, in India or abroad, which have a synergistic fit with our operations.

Subject to compliance with certain Indian laws and regulations, including Indian exchange control laws and regulations, we are permitted:

- to make overseas direct investments in a joint venture or wholly-owned subsidiary outside India of up to 400% of our net worth as of the date of our last audited balance sheet; and

- to make overseas direct investments, without limits on net worth, in any foreign security from the proceeds of an international offering of American Depositary Receipts, or ADRs or Global Depositary Receipts, or GDRs, or from the account balances held in our exchange earner's foreign currency bank accounts.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

In certain other cases, we are required to obtain the approval of the Reserve Bank of India and / or Government of India to acquire shares of a foreign company for cash consideration or through a share swap transaction (subject to certain exceptions for an exchange of ADRs or GDRs).

In certain circumstances, we may not be able to meet the Indian regulatory requirements with respect to certain acquisitions of foreign companies and may require the prior approval of the Reserve Bank of India and/or the Government of India to consummate acquisitions of such foreign companies. We may not be able to obtain some or all of these approvals in a timely manner or at all, and thereby may be impeded in our efforts to acquire companies organized outside India. This inability may limit our growth, render us uncompetitive relative to our competitors and adversely affect our business, revenues and profitability.

*You may have difficulty enforcing any judgment obtained in the United States against us or our directors or executive officers in India.*

We are incorporated under the laws of India and most of our directors and executive officers reside outside the United States. Furthermore, most of our assets and the assets of our directors and executive officers are located outside the United States. As a result, you may be unable to:

- effect service of process upon us or our directors and executive officers; or
- enforce judgments obtained in the United States courts against us or such persons in the United States, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States.

The United States and India do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters.

*Incidents such as terrorist attacks and other acts of violence or war involving India, the United States, and other countries could adversely affect the financial markets, result in loss of client confidence, and adversely affect our business, results of operations and financial condition.*

Incidents such as the terrorist attacks that have occurred in India, the United States, and other countries and other acts of violence or war, including those involving India, the United States or other countries, may adversely

Table of Contents

affect global equity markets and economic growth. These acts may also result in a loss of business confidence and have other consequences that could adversely affect our business, results of operations and financial condition. Travel advisories, reluctance to travel and increased visa scrutiny for travelers as a result of such attacks may have an adverse impact on our ability to operate effectively. Any of these events could adversely affect client confidence in India as an outsourcing base.

***Regional conflicts in South Asia could adversely affect the Indian economy, disrupt our operations and cause our business to suffer.***

South Asia has, from time to time, experienced instances of civil unrest and hostilities among neighboring countries, such as between India and Pakistan and even within India. There have been military confrontations along the Indian border from time to time. The potential for hostilities between India and its neighbouring countries may occur due to past terrorist incidents in India, claims on territory, troop mobilizations along the border, and the geopolitical situation in the region. Military activity or terrorist attacks in the future could influence the Indian economy by disrupting communications and making travel more difficult. Political tensions could increase the perception that investments in Indian companies involve a higher degree of risk than companies in other countries such as the United States. This, in turn, could have a material adverse effect on the market for securities of Indian companies, including our equity shares and our ADSs, and on the market for our services.

***Our performance is linked to the stability of policies and the political situation in India.***

The role of the Indian central and state governments in the Indian economy and their effect on producers, consumers and regulators has remained significant over the years. Since 1991, successive governments of India have pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. The present Government of India elected in May 2009 has taken initiatives that continue to support the economic liberalization policies pursued by previous governments. We cannot assure you that these liberalization policies will continue in the future. The rate of economic liberalization could change, and specific laws and policies affecting technology companies, foreign investment, currency exchange rates and other matters affecting investment in our securities could change as well. A significant change in India's economic liberalization and deregulation policies could adversely affect business and economic conditions in India generally, and our business in particular.

***We are vulnerable to natural disasters that could severely disrupt the normal operation of our business and adversely affect our earnings.***

India is susceptible to natural disasters, including tsunamis, floods and earthquakes. On December 26, 2004, southeast Asia, including the eastern coast of India, experienced a tsunami that caused significant loss of life and property damage. While our facilities were not damaged, the tsunami struck Chennai and other areas in which we operate. Substantially all of our facilities and IT professionals are located in India including Mumbai, which has also experienced heavy flooding in recent years. If our facilities are damaged by a tsunami, flood, earthquake or other natural disaster, our global delivery capability could be interrupted or delayed significantly. Although we maintain comprehensive natural perils insurance up to policy limits our insurance coverage may not be sufficient to cover all of our potential losses. In addition, disaster management facilities in India may not be adequate to protect against potential losses. As a result, a natural disaster in India or in any other jurisdiction where we operate could have a material adverse effect on our business, financial condition and results of operations.

***Compliance with new and changing corporate governance and public disclosure requirements adds uncertainty to our compliance policies and increases our costs of compliance.***

Laws, regulations and standards relating to accounting, corporate governance and public disclosure, new SEC regulations, NYSE rules, Securities and Exchange Board of India rules, and Indian stock exchanges listing regulations are subject to change and can create uncertainty for companies like ours. New or changed laws, regulations and standards could lack specificity or be subject to varying interpretations. Their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such governance standards.

In particular, continuing compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting requires the commitment of significant financial and managerial resources and our external auditors independent assessment of the internal controls over financial reporting.

We seek to maintain high standards of corporate governance and public disclosure, and our efforts to comply with evolving laws, regulations and standards in this regard have resulted in, and are likely to continue to result in, increased general and administrative expenses.

***Our international expansion plans subject us to risks inherent in doing business internationally.***

The majority of our software development facilities are located in India. As we are in the process of scaling up our presence outside India through our strategic development centres opened in China, Singapore and Mexico, we are subject to additional risks related to our international expansion plans, including risks related to complying with a wide variety of national and local laws in such countries. In addition, we may face competition in other

Table of Contents

countries from companies that may have more experience with operations in such countries or with international operations in general. We may also face difficulties integrating new facilities in different countries into our existing operations, as well as integrating employees that we hire in different countries into our corporate culture. Our international expansion plans may not be successful and we may not be able to compete effectively in other countries. Any of these events could adversely affect our revenues, profitability and cash flows.

**Risks Relating to Our ADSs and our Trading Market**

***Sales and issuances of our equity shares or ADSs may adversely affect the market price of the ADSs and our equity shares.***

Sales of a substantial number of equity shares, including sales by our insiders, significant shareholders, directors or executive officers whether on the Indian stock exchanges or into the United States of ADSs or otherwise, or the perception that such sales may occur, could adversely affect the market price of the ADSs and our equity shares or our ability to raise capital through an offering of our securities. In the future, we may also sponsor the sale of shares currently held by some of our shareholders, or issue new shares. Depending on the number of shares tendered and accepted in the open offer, iGATE may own up to 83.6% of our outstanding equity shares. In such event, we will be required to take steps to comply with the requirements under the amended Securities Contracts (Regulation) Rules, 1957 and our listing agreement entered into with the Indian stock exchanges, wherein we are required to maintain a minimum public shareholding of 25%. The Securities Contracts (Regulation) Rules, 1957, as amended, defines public shareholding to refer to equity shares held by persons other than a company's promoter, promoter group, subsidiaries and associates, and also excludes shares held by a custodian against which ADRs/GDRs have been issued overseas. In the public announcement dated January 11, 2011, the Acquirers have stated that in the event the public shareholding is reduced below the minimum level required by law following the completion of the open offer process, then they will take necessary steps to facilitate compliance with the relevant provisions of law. Such steps may include sales of shares by the Acquirers. We can make no prediction as to the timing of any such sales or the effect, if any, that future sales of our equity shares, or the availability of our equity shares for future sale, will have on the market price of our equity shares or ADSs prevailing from time to time. We have adopted an employee stock option plan as a means to reward and motivate our employees. You may experience dilution of your shareholding to the extent that we make future equity offerings or issue equity shares pursuant to the exercise of stock options under our employee stock option plan.

***Trading suspensions and closures at the Indian stock exchanges may adversely affect the trading price of ADSs.***

Our equity shares are listed and traded in India on the Indian stock exchanges. The regulation and monitoring of Indian securities markets and the activities of investors, brokers and other participants differ, in some cases significantly, from those in the United States. Indian stock exchanges have in the past experienced problems, including temporary exchange closures, broker defaults, settlement delays and strikes by brokerage firm employees, which, if continuing or recurring, could affect the market price and liquidity of the securities of Indian companies, including our equity shares and ADSs, in both domestic and international markets.

The two Indian stock exchanges on which our equity shares are listed, the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited, also have a specific price band for each security listed. When a price fluctuation exceeds the specific limits of the price band, trading of the security is stopped for that trading session. Such price volatility controls and the specific price bands are decided by each individual exchange and may differ from exchange to exchange. A closure of or trading stoppage on the Indian Stock Exchanges could adversely affect the trading price of the ADSs.

*Exchange rate fluctuations between the dollar and the rupee will affect the value of the ADSs.*

Fluctuations in the exchange rate between the rupee and the dollar will affect the dollar value of any cash dividends paid in rupees on our equity shares represented by the ADSs. In addition, these fluctuations will affect the dollar equivalent of the rupee price of our equity shares on the Indian Stock Exchanges and, as a result, the prices of our ADSs in the United States, as well as the dollar value of the proceeds a holder would receive upon the sale in India of any equity shares withdrawn from the depositary under the deposit agreement. Holders may not be able to convert rupee proceeds into dollars or any other currency, and there is no guarantee of the rate at which any such conversion will occur, if at all.

*Indian law imposes certain restrictions that limit a holder's ability to transfer the shares obtained upon surrender of ADSs and repatriate the proceeds of such transfer, which may cause our ADSs to trade at a premium or a discount to the market price of our equity shares.*

Under certain circumstances, the approval of the Reserve Bank of India is required for the sale of equity shares underlying ADSs by a non-resident of India to a resident of India. The Reserve Bank of India has given general permission to effect sales of existing shares or convertible debentures of an Indian company by a resident to a non-resident, subject to certain conditions, including the price at which the shares may be sold. Additionally, except under certain limited circumstances, if an investor seeks to convert the rupee proceeds from a sale of equity shares in India into foreign currency, approval from the Reserve Bank of India will have to be obtained for each such transaction. Required approval from the Reserve Bank of India or any other government agency may not be obtained on terms favorable to a non-resident investor or at all.

Table of Contents

*An investor in our ADSs may not be able to exercise preemptive rights for additional equity shares and may thereby suffer dilution of its equity interest in us.*

Under the Indian Companies Act, 1956, or the Indian Companies Act, a company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new shares, unless such preemptive rights have been waived by holders of three-fourths of the shares voting on the resolution to waive such rights. A holder of ADSs may be unable to exercise preemptive rights for equity shares underlying ADSs unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to prepare and file such a registration statement and our decision to do so will depend on the costs and potential liabilities associated with any such registration statement, as well as the perceived benefits of enabling the holders of ADSs to exercise their preemptive rights, and any other factors we consider appropriate at the time. We cannot assure you that we would file a registration statement under these circumstances. If we issue any such securities in the future, such securities may be issued to the depository, which may sell such securities for the benefit of the holders of the ADSs. There can be no assurance as to the value, if any, the depository would receive upon the sale of such securities. To the extent that a holder of ADSs is unable to exercise preemptive rights granted in respect of the equity shares represented by the ADSs, his proportional interest in us would be reduced.

*Holders of ADSs may be restricted in their ability to exercise voting rights.*

At our request, the depository will mail the holders of ADSs any notice of a shareholder meeting received from us together with information explaining how to instruct the depository to exercise the voting rights of our shares represented by the ADSs. If the depository receives voting instructions from the holders in time, relating to matters that have been forwarded to them, it will endeavor to vote the shares represented by the ADSs in accordance with such voting instructions. However, the ability of the depository to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot ensure that the holders will receive voting materials in time to enable them to return voting instructions to the depository in a timely manner. Shares for which no voting instructions have been received will be voted by our management. There may be other communications, notices or offerings that we only make to holders of our shares, which will not be forwarded to holders of ADSs. Accordingly, the holders of ADSs may not be able to participate in all offerings, transactions or votes that are made available to holders of our shares.

*An active or liquid trading market for our ADSs is not assured.*

An active, liquid trading market for our ADSs may not be maintained in the long term. We cannot predict the extent to which an active, liquid public trading market for our ADSs will continue. If there is no longer any active trading market for our ADSs, or if we fail to meet eligibility requirements, we may be required to delist from the NYSE, which could adversely affect the price of our ADSs and, potentially, our equity shares. Although holders of ADSs are entitled to withdraw the equity shares underlying our ADSs from our Depository at any time, there is no public market for our equity shares in the United States.

**ITEM 4. INFORMATION ON THE COMPANY**

**4.A. History and development of the Company**



## Edgar Filing: Patni Computer Systems LTD - Form 20-F

We were incorporated as Patni Computer Systems Private Limited on February 10, 1978 under the Indian Companies Act. We are registered with the Registrar of Companies, Pune, Maharashtra, India. Our company registration number is 11-020127 (CIN L72200MH1978PLC020127). In 1988, since our turnover exceeded prescribed limits under the then-applicable Section 43A of the Indian Companies Act, we became a deemed public company and subsequently on April 15, 1991 we were converted into a private limited company. In 1995 we once again became a deemed public company and upon the deletion of Section 43A from the Indian Companies Act, we were converted to a private limited company on June 27, 2002. We were again converted to a public limited company on September 18, 2003 and changed our name to Patni Computer Systems Limited. Our registered office is located at S-1A Irani Market Compound, Yerawada, Pune 411 006, Maharashtra, India and the telephone number of our registered office is +91 20 2669 3457.

The original activities of the Company were computer time rental, the resale of imported computer hardware, and software exports. In 1981, we promoted PCS Data Products (Private) Limited, or PCSDP, for the sale and marketing of computer equipment and hardware maintenance. In 1987, we formed PCS Data General India, or PCSDG, a joint venture with The Data General Corporation, U.S.A., for the manufacture and maintenance of computer hardware. In 1994, the name of PCSDP was changed to PCS Industries Limited, or PCSIL, and PCSDG was merged into PCSIL. Since 1994, we have been entirely focused on software exports. In 1999, the shares of PCSIL held by us and other non-operating assets were de-merged into other group companies and our Company emerged as a focused IT services company.

Our corporate headquarters are located at Akruti Softech Park, MIDC Cross Road No. 21, Andheri East, Mumbai 400 093, India, and our North American headquarters are located at One Broadway Cambridge, MA 02142. General Atlantic made a significant investment in our company in 2002. To enhance our domain expertise in financial services and communications, media and utilities, we made selective acquisitions such as Patni Telecom (formerly Cymbal), which we acquired in November 2004. We completed our initial public offering of equity shares in India in February 2004 and our initial offering of ADSs listed on the New York Stock Exchange in

Table of Contents

December 2005. In 2007, we acquired Logan Orviss International, a European based telecommunications consulting company, and Patni Life Sciences, Inc. (formerly Taratec Development Corporation), a U.S. based life sciences consulting company to widen our telecommunications and life sciences expertise, respectively. With effect from October 1, 2010. Patni Life Sciences, Inc. was merged with Patni Americas, Inc. In addition, in 2007 we acquired from one of our major customers the worldwide rights for a software proprietary intellectual property right that enables communication service providers to offer customer management, retail point-of- sales and billing services for a variety of products and services.

In 2010, we acquired CHCS Services Inc a U.S based TPA providing services to Insurance companies from one of our customers to undertake a new line of business as a TPA in the insurance and healthcare sector, which we expect to enhance our existing BPO capabilities. We also entered into a Joint Venture Agreement ( 49% ownership interest) with J R Kyushu System Solutions Inc., to provide high quality, cost effective IT and product engineering services to the Japanese enterprise market. In addition we acquired from one of our customers, an existing software Intellectual Property Rights ( IPR ) which is used for education sector management in UK and Ireland and we intend to increase the revenue by sale of licenses in certain geographies along with significant use in horizontals other than the education learning domain.

Our capital expenditures were \$40.0 million, \$16.4 million and \$12.2 million respectively for the years 2008, 2009 and 2010. These capital expenditures were primarily to finance the expansion of our existing facilities as well as the construction / purchase of new facilities in India / leasehold improvements and other physical infrastructure in India. We anticipate capital expenditures in the range of \$10 million to \$15 million in 2011, principally to finance the construction of our new facilities in Pune, Gandhinagar and other facilities and physical infrastructure in India. We are obliged to make certain capital expenditures under a number of contracts relating to this expansion. Estimated amounts remaining to be executed on such contracts (net of advances), aggregated approximately \$54.5 million at December 31, 2010 to be spread over a three year period. We currently intend to finance our planned capital expenditure entirely from existing cash and cash equivalents, funds generated from operations and unutilized ADR proceeds.

On January 10, 2011, Pan-Asia iGATE Solutions and iGATE Global Solutions Limited, or the Acquirers, subsidiaries of iGATE, announced, that they had entered into definitive agreements to purchase shares representing in the aggregate 63.0% of our equity capital held by our major shareholders, comprising the Promoter group (Mr. Narendra Patni, Mr. Gajendra Patni and Mr. Ashok Patni) and General Atlantic Mauritius Limited) at a purchase price of Rs.503.5 (\$11.3) per share. The proposed acquisition of such shares is subject to regulatory approvals and other closing conditions. Additionally, on January 11, 2011, the Acquirers made a public announcement for an open offer to acquire an additional 20.6% of our equity capital in accordance with the takeover code requirements under the Takeover Code, and the tender offer requirements under the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations of the U.S. Securities and Exchange Commission. Depending on the number of shares tendered and accepted in the open offer, upon the completion of such open offer, the Acquirers and iGATE may own up to 83.6% of our equity capital. iGate Corporation is a publicly listed company on NASDAQ.

**4.B. Business overview**

We are a leading Indian provider of information technology services. We deliver a comprehensive range of IT services through globally integrated onsite and offshore delivery locations primarily in India, which we call our global delivery model. We offer our services to customers through industry-focused practices, including insurance, manufacturing retail and distribution, financial services and communications, media and utilities, and through technology-focused practices. Within these practices, our service lines include application development, application maintenance and support, packaged software implementation, infrastructure management services, product engineering services, business process outsourcing and quality assurance services.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

We have in-depth knowledge in our industry and technology practices. Insurance, manufacturing retail and distribution, communications, media and utilities and financial services accounted for 24.7%, 28.9%, 17.9% and 12.8% in 2008, respectively, 29.7%, 29.0% 13.5%, and 12.8% in 2009, respectively and 30.3%, 30.3%, 11.2% and 11.6% in 2010, respectively of our revenues. Our technology practices offer research, design and development services for product engineering. Through our dedicated sales and management teams in each of our industry and technology practices, we believe we are able to provide better client service, effectively cross-sell services to our existing clients and develop new client relationships.

We have a track record of successfully developing and managing large, long-term client relationships with some of the world's largest and best known companies. Our customer base has increased from 239 clients as of December 31, 2006 to 297 clients as of December 31, 2010. Several of our key executives are located in our client geographies to better develop and maintain client relationships at senior levels. Repeat business accounted for 93.0%, 94.0% and 94.6% of our revenues in 2008, 2009 and 2010.

Our revenues have grown from \$578.9 million in 2006 to \$701.7 million in 2010, representing a CAGR of 4.9%. Our net income has grown from \$59.2 million in 2006 to \$133.2 million in 2010, representing a CAGR of 22.5%. Our total number of employees was 12,804 as of December 31, 2006 and 17,642 as of December 31, 2010. We have invested in new high-tech facilities, which we refer to as knowledge parks, designed for expanding our operations and training our employees. We have 243 sales and marketing personnel supported by dedicated industry specialists in 30 sales offices around the globe, including North America, Europe, Japan and the rest of the Asia-Pacific region.

Table of Contents

**Industry Structure and Developments** (Source: *Forecast Alert: IT Spending, Worldwide, 2008-2014, 4Q10 Update* ( ID Number: G00209967) Report and Indian IT Industry overview from *NASSCOM Strategic Review Report 2011*)

**Global Markets Overview**

According to the Forecast Alert: IT Spending, Worldwide, 2008-2014, 4Q10 Update report by Gartner, the headline is that the global IT spending growth forecast has been revised up, from 3.2% to 5.4% for 2010 and from 3.5% to 5.1% in 2011. Currency effects and a slightly more optimistic outlook in some key segments have combined to raise the outlook for U.S. dollar-denominated growth.

The main reasons for the upward revision are as follows:

- Currency exchange rate fluctuations have continued to affect our U.S. dollar-denominated forecast. Of the 2.2 percentage point increase in IT spending growth in 2010, 1.6% is attributable to the recent devaluation of the U.S. dollar against other currencies.
- However, in constant dollars (that is, stripping out the effect of currency exchange rate movements), IT spending growth in 2010 has been revised up from 3.4% to 4% as upward revisions in telecommunications spending has more than compensated for downward revisions to our forecast for client computing spending.
- The reductions in the client computing forecast for 2010 reflect concerns for U.S. and Western European PC growth given weak 3Q10 results and a still highly uncertain economic outlook for both markets. The reductions also reflect assumptions about displacement of PCs by media tablets in these markets although the reductions on this account are relatively small as media tablet displacement is seen as a much bigger long-term problem. The reduction in the Western European forecast also reflects more aggressive assumptions about average selling price (ASP) declines in the region, which are expected to come about as the dollar continues to decline and constant U.S. dollar ASPs in Western Europe converge toward their U.S. counterparts.
- For 2011, currency exchange rate fluctuations actually have masked a downward revision to the underlying spending forecast. The 1.6 percentage point increase in U.S. dollar-denominated spending growth is assisted by a 2% gain because of U.S. dollar devaluation. Looked at another way, in constant dollars we have reduced the forecast for spending growth in 2011 from 4.7% to 4.3%, which is a 0.4% drop.
- The reduction in the overall IT spending forecast for 2011 is almost entirely the result of the reduction in the PC forecast, again concentrated in the U.S. and Western Europe with reductions to the Asia/Pacific forecast chipping in some additional downward pressure. Here again, the reductions to the U.S. and Western European PC forecasts reflect concern for PC growth given likely weak economic growth in 1H11. Media tablets also are expected to take a somewhat bigger bite out of growth than in 2011. The reduction to the Asia/Pacific forecast for PC spending reflects concern that the region's strong growth in 2010 likely pulled some growth from 2011, precipitating a write-down of 2011. It also incorporates some effect on China's PC growth of the expected slowdown in Chinese economic growth. The reductions in the Western European and Asia/Pacific PC spending forecasts also reflect the assumption of slightly faster constant U.S. dollar ASP declines, fueled by

further declines in the dollar.

- Longer term, the forecast for annual growth in global IT spending in U.S. dollars for 2012, 2013 and 2014 is virtually unchanged at about 4.5%, although the upward revisions for 2010 and 2011 have had the effect of increasing the five-year CAGR through 2014 to 4.8% from 4% last quarter.

Table of Contents

*(Disclaimer The Gartner Report described herein, Forecast Alert: IT Spending, Worldwide, 2008-2014, 4Q10 Update ( ID Number: G00209967 represent) data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ( Gartner ), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Prospectus) and the opinions expressed in the Gartner Report(s) are subject to change without notice)*

**Indian IT Industry Outlook**

Nasscom Strategic Review 2011 states that the IT-BPO sector has become one of the most significant growth catalysts for the Indian economy. In addition to fuelling India's economy, this industry is also positively influencing the lives of its people through an active direct and indirect contribution to the various socio-economic parameters such as employment, standard of living and diversity among others. The industry has played a significant role in transforming India's image from a slow moving bureaucratic economy to a land of innovative entrepreneurs and a global player in providing world class technology solutions and business services.

The sector is estimated to aggregate revenues of \$88.1 billion in FY2011, with the IT software and services sector (excluding hardware) accounting for \$76.1 billion of revenues. During this period, direct employment is expected to reach nearly 2.5 million, an addition of 240,000 employees, while indirect job creation is estimated at 8.3 million. As a proportion of national GDP, the sector revenues have grown from 1.2 % in FY1998 to an estimated 6.4% in FY 2011. Its share of total Indian exports (merchandise plus services) increased from less than 4.0 % in FY1998 to 26.0 % in FY2011.

Export revenues are estimated to gross \$ 59 billion in FY2011 accounting for a 2 million workforce.

IT services is expected to grow by about 3.5% in 2011 and 4.5% in 2012. While focus on cost control and efficiency/productivity remain, customers are also evaluating how investments in IT impact can further business goals - ROI led transformation - leading to an increase in project-based spending. Services such as virtualization, consolidation, and managed services that focus on ROI in the short term will drive opportunities in the market. Emerging Asian enterprises across multiple industries will continue to accelerate services spending in their efforts to challenge existing global MNCs. Organizations will look for alternative IT models - Cloud, on-demand services and SaaS - in order to reduce hardware infrastructure costs and provide scalability on demand.

Worldwide packaged software revenue is estimated to reach \$ 297 billion in 2011, a Y-o-Y growth of over 5%, led by emerging regions, such as APAC and LATAM. These regions are expected to invest heavily in enterprise software initiatives as they continue to round out the IT infrastructure necessary to do business. Business Process Outsourcing spending is expected to be driven by analytical services, F&A and industry-specific BPO solutions.

In the future, the global IT-BPO industry is likely to go through a paradigm shift across five parameters-

**Markets** - Growth will be driven by new markets - SMBs, Asia, public sector and government-influenced entities which will become a priority customer base

**Customers** Customers will demand transformative value propositions, that go beyond lower-cost replication; as technology creates virtual supply chains, customers will require a seamless experience across time zones and geographies; increasing demand for innovation and end-to-end transformation

**Service Offerings** Offerings that are high-end, deeply embedded in customer value chains will emerge. Services and delivery will become location-agnostic leading to new opportunities such as design services in manufacturing, Remote Infrastructure Management (RIM), etc. Solutions for the domestic market will be a key focus area

**Talent** Government pressures to create local jobs and the need for local knowledge will alter the employee mix - a higher proportion of non-Indians with multilingual and localised capabilities. There will be a much greater focus on ongoing development of specialised skills and capabilities

**Business models** Driven by a focus on expertise and intellectual property, offerings will shift from piecemeal, technology-centric applications to a range of integrated solutions and higher-end services, spanning new service lines (e.g., green IT)

Suitably exploiting these emerging opportunities both in the global and domestic markets can help India reach \$130 billion in IT-BPO revenues by FY2015, a CAGR of 14.0 %. By FY2015, the Indian IT-BPO industry is expected to contribute about 7.0 % to annual GDP and create about 14.3 million employment opportunities (direct and indirect).

#### ***Our Delivery Model***

We address our clients' needs with our global delivery model, through which we allocate resources in a cost-efficient manner using a combination of onsite client locations in North America, Europe and Asia and offshore locations in India. We believe an integral part of our delivery is our industry knowledge, which we refer to as our domain expertise.

Table of Contents

We refer to our own industry experts, business analysts and solutions architects who are located primarily onsite with the client as our domain wedge. These experts are supported by additional personnel who provide technical services onsite on a temporary basis, and by our trained professionals located normally at one or more of our nine offshore centers in India. Typically, at the initial stage of a project, we provide services through our onsite industry and technology experts and our transient onsite delivery personnel. By applying our domain wedge approach, we deliver solutions that can be structured to scale to suit our clients' needs. In certain cases we provide dedicated offshore development centers, set up for a particular client. Through these offshore development centers we integrate our clients' processes and methodologies and believe we are better positioned to provide comprehensive and long-term support. We maximize the cost efficiency of our service offerings by increasing the offshore portion of the work as the client relationship matures. To complement our domain wedge, we have aligned a majority of our sales and marketing teams to focus on specific industry sectors.

***Our Competitive Strengths***

We believe our competitive strengths enable us to deliver high-quality, efficient and scalable services. These strengths include:

***Focused Industry Expertise***

We concentrate on industries where we believe we can generate sustained revenue growth, such as insurance, manufacturing, retail and distribution, financial services and communications, media and utilities. Through our extensive experience in these industries, we provide solutions that respond to technological challenges faced by our clients. We also focus on technology practices, specifically in product engineering services.

***Successful Client Relationships***

We have demonstrated the ability to build and manage our client relationships. Our long-term relationships typically develop from performing discrete projects to providing multiple service offerings spread across the client's businesses. Through our flexible approach, we believe we offer services that respond to our clients' needs irrespective of their size. By leveraging our industry experience with our project management capabilities and breadth of technical expertise, we solidify and expand our client relationships.

***Extensive Suite of IT Services***

We provide a comprehensive range of IT services, including application development, application maintenance and support, packaged software implementation, infrastructure management services, product engineering, business process outsourcing and quality assurance services. Our knowledge and experience span multiple computing platforms and technologies, which enable us to address a range of business needs and to function as a virtual extension of our clients' IT departments. We offer a broad spectrum of services in select industry sectors, which we leverage to capitalize on opportunities throughout our clients' organizations.



***Delivery and Operational Excellence***

Through our mature global delivery model, we deliver high quality and cost-effective IT services from multiple locations in a reduced timeframe. We vary the composition of our employee resource pool, in terms of seniority and location, to maximize our productivity and efficiency. Our processes and methodologies have achieved Capability Maturity Model Integrated (CMMi) Level 5, the highest attainable certification. We use project management tools to deliver services to client specifications in a timely and reliable manner while maintaining a high level of client satisfaction.

***Highly-skilled Professionals***

We have a highly qualified management team with a broad range of experience in the global IT industry. Our managers and senior technical personnel provide in-depth project management expertise to customers. To maintain this level of expertise, we have placed significant emphasis on recruiting and training our workforce of highly skilled professionals.

***Our Strategy***

We seek to further enhance our position as a leading Indian provider of integrated IT services and solutions through our global delivery model. To achieve this we intend to:

***Penetrate and Grow Strategic Client Accounts***

We have achieved strong revenue growth by focusing on select, long-term customer relationships which we call strategic accounts. We aim to expand the scope of our client relationships by leveraging our focused industry sector expertise with delivery excellence, responsive engagement models and breadth of services. We intend to focus on adding new strategic clients and further penetrating our existing customer relationships. We address the needs of our larger strategic relationships through dedicated account managers who have responsibility for increasing the size and scope of our service offerings to such clients. We aim to strengthen our sales and marketing teams, a majority of which are aligned to focus on specific industries.

Table of Contents

***Strengthen and Broaden our Industry Expertise with Micro Vertical Focus***

We intend to strengthen our understanding of key industries by investing in building or acquiring intellectual property like platforms, tools , etc in chosen micro verticals within each industry segment that we operate. We shall also continue to invest in a strong base of industry experts, business analysts and solutions architects as well as considering select from targeted acquisitions. We believe that we can create competitive differentiation and add more value than a general service provider through such investments in enhancing our understanding in specific industry and domain requirements of our clients.

***Strengthen and Broaden our Service Lines***

We aim to deepen our existing client relationships through new and more comprehensive service lines. In recent years we have added new capabilities in line with our growth and customer needs. We continually explore new initiatives through our internal centers of excellence, which focus on innovation in specific technology platforms or services. For example, we added quality assurance services as a new service line, and developed increased capabilities such as business intelligence, database administration and legacy system modernization in other service lines.

***Optimize and Expand Delivery Capability***

. Our process and methodologies such as PatniPLUS® consolidate decades of software development and maintenance experience in delivering and supporting enterprise applications and products for our clients. We believe that our mature process frameworks effectively reduce risk and unpredictability across the software development life cycle and flexibly integrate with our clients processes. We further believe that our quality systems create strong predictive and diagnostic focus, delivering measurable performance to clients Critical to Quality parameters resulting in a faster turnaround, higher productivity, and on-time to first-time-right deliveries. We provide full visibility on our projects for our clients through integrated web-based project management and monitoring tools.

We are committed to enhancing our processes and methodologies that improve our efficiency. We aim to develop new productivity tools, refine our software engineering techniques and maximize reuse of our processes. To maximize improvements in our processes and methodologies we have similarly expanded our infrastructure and we have constructed new knowledge park campuses in India to provide world-class infrastructure, high standards of quality and secure delivery.

***Expand Geographically and Build our Brand Globally***

While our Patni brand is an established and recognized brand in India, we intend to increase recognition of our brand elsewhere in our client markets. We seek to achieve this through targeted analyst outreach programs, trade shows, white papers, sponsorships, workshops, road shows, speaking engagements and global public relations management. We believe that a stronger brand will facilitate our ability to gain new clients in new geographies and to attract and retain talented professionals.

*Pursue Strategic Acquisitions*

We seek to pursue selective strategic acquisitions to augment our capabilities and to address gaps in industry expertise, technical expertise, service lines and geographic coverage. We will continue to consider and seek acquisition opportunities which considerably widen our industry and technology practices.

**Industry Practices, Technology Practices and Service Lines**

We offer our services to customers through industry practices in insurance, manufacturing, retail and distribution, financial services and communications, media and utilities, as well as in other industries. We also have technology practices that offer services in product engineering and for Independent Software Vendors, or ISVs. Our industry practices and technology practices are complemented by our service lines, which we develop in response to client requirements and technology life cycles. Our service lines include application development, application maintenance and support, packaged software implementation, infrastructure management services, product engineering, business process outsourcing and quality assurance services.

**Industry Practices**

*Insurance*

We offer a range of integrated services to global insurance companies. Our industry experts employ their knowledge in all stages of the insurance business cycle, from underwriting to compliance. Our offerings include a broad spectrum of services to insurance carriers including life and health, property and casualty and reinsurance companies. The IT services we provide span several functions, including sales and marketing, distribution, policy services, claims, compliance, accounting and reinsurance. In May 2008, we launched a customizable solution framework for the development or modernization of insurance business applications. Our core services include:

- systems consolidation and integration of mergers and acquisitions;

Table of Contents

- policy administration conversions;
- development of frameworks that reduce the cycle time and cost for policy issue and claim handling;
- new product (life and retirement) introductions;
- batch system optimization;
- data mining;
- development of business intelligence applications;
- legacy modernization and support of several applications; and
- third party administration services for life, medical and other annuities.

We are a member of global insurance industry organizations such as Life Office Management Association, or LOMA, the Association for Cooperative Research and Development, or ACORD, and the Insurance and Accounting Systems Association. Several of our business analysts are LOMA certified and certified by the American Institute for Chartered Property and Casualty Underwriters.

***Manufacturing, Retail and Distribution***

Our manufacturing, retail and distribution practice offers IT and business process outsourcing services that support the purchase, sales, production, engineering, finance, human resources and legal functions of a manufacturing company. Within the manufacturing industry, the sectors we service include consumer goods and durables, electronics, engineering, food and beverages, personal care products, paper, rubber products, life sciences and pharmaceuticals. To businesses in these sectors, we provide IT services in the following areas:

- supply chain management;

- demand chain management;
- manufacturing applications and core manufacturing systems (including package implementation);
- data warehousing; and
- business intelligence.

A significant portion of the services we provide to our customers in our manufacturing practice include implementation, customization and support of ERP platforms used by our customers

#### *Retail*

Our experience in the retail practice includes development, support and testing of applications for specialty and hi- tech retailers and grocery chains. We also offer services such as PCI compliance, development of multi-channel retail solutions and solutions around point of sale systems.

#### *Logistics & Transportation*

We provide services to road, air and rail transportation companies covering operational applications such as fleet management, revenue accounting, reservations and flight operations. Apart from these, we also provide solutions to the logistic companies in areas such as warehouse management applications, supply chain and route optimization.

From January 1, 2009, we have renamed our manufacturing segment as manufacturing, retail and distribution. This practice now includes clients in the retail, logistics and transportation industry.

#### *Financial Services*

Our financial services business unit focuses on customers in the banking, diversified financial services and securities business segments. We provide consulting and software services including BPO (business process outsourcing) for consumer and corporate banking, treasury and risk management, mutual funds, investment management and securities. Our services to these business areas include:

- architecture design;
- application integration and development;
- information security assessments;
- legacy system maintenance;
- business intelligence;
- customer relationship management;
- mutual funds and benefits administration;

Table of Contents

- portfolio accounting and reporting;
- stock exchange and brokerage house solutions;
- business process outsourcing;
- managed services (ITO & BPO) for middle and back office; and
- implementation and actuarial analytics.

*Communications, Media and Utilities*

Our communications, media and utilities practice provides domain expertise in a wide spectrum of IT operations and business support systems used by telecommunications service providers across various segments including mobile, wireline, cable, broadband and media. We have expertise particularly in the newer business models that are emerging in these markets such as mobile virtual network operations or integrated voice/data/entertainment content services over broadband and 3G networks. In May 2008, we launched Patni atoms™ a market-ready offering for communications service providers to set up core customer- and partner-facing business processes under one consolidated operational model.

Our telecommunications experts provide solutions that combine a wide variety of services including:

- IT strategy;
- system consulting and design;
- application development;
- implementation and maintenance;

- quality assurance;
- new product development and launch;
- infrastructure management services;
- business process outsourcing;
- IT outsourcing; and
- deployment of OSS and BSS systems.

The services we provide within the media and entertainment industry and television broadcasting include broadcast station management and automation applications, and traffic and billing systems. Our services for publishing companies cover content layout software and search systems. Our services for online gaming and casinos primarily involve accounts management.

#### *Energy & Utilities*

Our experience in the energy and utilities industry includes development, integration and testing of customer billing, meter process automation and smart meter programs for electric and water utility customers. In addition, we also offer geographic information systems and related services.

From January 1, 2009, we renamed our communications, media and entertainment practice as communications, media and utilities. It now includes clients in the energy and utilities industries.



Table of Contents

**Technology Practice**

***Product Engineering***

Our product engineering services practice provides services for product engineering, product life cycle support and research and development outsourcing space, with a specialized team of over 2,600 engineers focused to service a variety of technology sectors, such as medical electronics and life sciences, storage networks and computing, industrial automation, automotive, consumer electronics, mobile, wireless and telecom, enterprise platform software (ISV) and semiconductors.

Our product engineering practice services all the segments from application software, embedded hardware, embedded software engineering to computer aided engineering (Electro-mechanical) areas. Our product engineering services assist several fortune 500 product companies to bring new products quickly to the market by providing high quality, robust, domain backed complex software/hardware development services from offshore/nearshore.

Our services provide support to our clients in the development of their products in the following areas:

- *Software*
  
- Shrink wrapped and platform vendors
  
- System software
  
- Application framework vendors
  
- ASP (Active server pages), Vertical ISV
  
- *Electronics*

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

- Embedded software
- Hardware design
- Very large scale integration (VLSI) / Field programmable gate arrays (FPGA) design
- Packaging (Computer Aided Design / Computer Aided Manufacturing)
- *Mechanical/Electro-Mechanical*
- Product life cycle management / Product data management
- Computer aided engineering/ Computer aided design / Computer aided manufacturing
- *Storage networking computing*
- Core engineering service, Verification, Validation and Testing (VV&T), Reengineering and Sustainance
- Implementation services; Data center services, Cloud services, Virtualization
- *Medical devices*
- Product Re-platform and Reengineering
- Independent Verification & Design Validation
- *ISV*

- Product Life cycle Management and Re-engineering
- *Automation and controls*
- Industrial Automation and control systems engineering
- Building and rail automation services
- *Consumer electronics*
- DTV, Multimedia and Home Entertainment
- Mobile, wireless, gaming

#### **Service Lines**

##### ***Application Development***

We custom design, develop and implement software solutions for a variety of client needs. We offer services across the software development lifecycle, including requirements analysis, design, implementation, integration and testing for our projects. We typically perform application design, implementation and testing primarily in our offshore delivery centers located in India, while requirements analysis, transition planning, user training and deployment are performed at our clients' sites. In specific situations, we may work jointly with our clients' teams. Our projects range from single-platform, single-site systems to multi-platform, multiple-site systems and typically

Table of Contents

include new development and/or significant functional enhancements to existing software applications. We have developed expertise in mainframe, client-server and internet technologies and on emerging platforms such as .NET and J2EE.

***Application Maintenance and Support***

Our application maintenance and support services include performance optimization and system modification, product and system support, preventive maintenance and migration to newer technologies and platforms. We perform most of our maintenance and re-engineering assignments at our offshore delivery centers located in India. In addition, we maintain small teams at our clients' premises to coordinate support functions. We perform diagnostics to assess offshore outsourcing potential and prepare a customized offshore road-map. We share the benefits of our continuous improvement initiatives to reduce recurring maintenance costs for our clients. Our application maintenance projects are typically long-term in nature.

***Packaged Software Implementation***

We assess, evaluate, implement and maintain packaged software developed by global vendors in the areas of enterprise resource planning, customer relationship management or CRM, supply chain management, business intelligence and enterprise application integration. Our offerings comprise:

- consulting services, which include functional and technical assessment, architecture and technology consulting and training;
  
- implementation services, which include product implementation and rollout;
  
- application care services, which include post-implementation support, product customization, interface development and version upgrade; and
  
- functional extensions and integration of diverse enterprise applications.

***Infrastructure Management Services***

We offer full support services of the IT infrastructure and remote managed services of applications, network and hardware infrastructure for our clients. These services are delivered both at customer locations and from our offshore facilities located in India. We specialize in mainframe and

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

client-server operating systems, a wide range of data and voice networks, enterprise management systems, infrastructure products from well-known vendors, web-server products, network security products, disaster recovery and business continuity management. From our network operations center in India we have the facility, hardware and technology to deliver remote managed services to our customers. Our service offerings address several managed services configurations such as traditional, integrated and automated remote monitoring, and management and reporting for enterprise-wide infrastructure environments including hardware, communications and software environments.

### *Product Engineering Services*

Our product engineering services support the various industry requirements of multiple disciplines such as utilities, manufacturing, insurance, banking and finance. Our primary product engineering services include engineering design and modeling, electronic design, embedded software development, product lifecycle management which includes re-engineering, maintenance and sustenance of legacy products, testing and migrations to new technologies. We offer these services to clients in industry sectors such as consumer electronics, automotive, medical electronics, industrial automation, office automation, handheld/mobile device manufacturing and semiconductor manufacturing. Our technology expertise spans multiple computing languages including assembly language for various micro-controllers and processors, real-time operating systems, various computer aided design and manufacturing platforms, GIS platforms, communication protocols and digital signal processing. We also offer document conversion services and GIS services especially to our customers in the utilities industry.

### *Business Process Outsourcing*

We started offering business process outsourcing services in 2002. Since then we have been enhancing our expertise and concentrating on transaction processing for our insurance, financial services and telecommunication clients and administrative processes in the areas of finance and accounting, payment processing, human resource management and technical help-desks.

### *Quality Assurance Services*

Our quality assurance services include functional testing, test automation, performance testing, remote testing and test process consultancy. Apart from testing custom-built applications, we have experience in testing operating systems, utilities, specialized application servers and middleware products. With respect to automation, we have partnerships with leading vendors and expertise in leading commercial and open source tools.

### **Quality and Project Management**

While quality always has been an integral part of our operations at Patni, we became formally certified and assessed for quality models in 1995. We started with ISO 9000-1994, underwent SEI-CMM level 4 and 5

Table of Contents

assessments and as of today are ISO 9001-2000 certified and are assessed for P-CMM Level 3 and SEI-CMMi Level 5. ISO 9001 is an international standard for quality management systems maintained by the International Organization for Standardization. The Capability Maturity Model (CMM) is a method for evaluating the quality of a company's management and software engineering practices, with Level 5 being the highest attainable certification. The CMM was developed by the Software Engineering Institute (SEI) at Carnegie Mellon University. The Software Engineering Institute subsequently released a revised version known as the Capability Maturity Model Integration (CMMi). We have been using the Six Sigma Program to implement process changes including the above. We continuously strive to better our quality management system with the help of industry best practices and research findings. Our quality management system involves the review and continuous improvement of software development and related processes, testing of work products and regular internal and external quality audits. We apply sophisticated project management and solution deployment methodologies that we have developed to help ensure timely, consistent and accurate delivery of IT solutions to our clients. In 2010 we have received the following recognitions:

- Listed among the Best 20 Leaders in Financial Services (Insurance) in the 2010 Global Outsourcing 100, by IAOP.
- Named a Niche Player in Gartner's Magic Quadrant for SAP ERP Implementation Service Providers in the North America, 2010 Report.
- Named a Niche Player in Gartner's Magic Quadrant for CRM Service Providers in the North Americas, 2010 Report, as also in the Europe, 2010 Report.
- Named the IT Supplier of the Year 2010 (for the second consecutive year) by Weyerhaeuser, a leading provider of integrated forest products.
- Named the Best Supplier for FY 2009-2010 by Toshiba Mitsubishi-Electric Industrial Systems Corp.
- Recognized as Genworth Financial's 2009 Strategic Supplier of The Year.
- Ranked 40th amongst the top technology providers for financial institutions in the FinTech 100 - 2009 list.
- Listed in the Global Services 100 2009, instituted by Global Services and neoIT (Neogroup):
- Ranked 7th among Top 10 best performing IT Infrastructure Service Providers

- Ranked 8th among Top 10 best performing IT Service Providers .
- Received BPO Excellence Awards hosted by Stars of the Industry in the categories:
- BPO Organization of the Year
- Operational Excellence and Quality
- Social Change Agent

#### *Centers of Excellence*

We have developed internal centers of excellence to create expertise in emerging technologies. We currently have centers of excellence that focus on middleware integration, legacy systems modernization, business intelligence, Radio Frequency Identification (RFID), process consulting and service oriented architectures based on technologies such as J2EE and .NET. For example, we use our center of excellence on legacy systems modernization to develop solutions for our clients who want to maintain their current business-critical systems but at the same time want to utilize the latest technologies for new systems. We partner with leading technology vendors such as IBM and Microsoft to implement technology solutions soon after they are made available in the market.

#### **Sales and Marketing**

Our sales teams use a multi-pronged approach to market our services. They target certain industries and service lines through focused sales executives, geographies through regional sales executives and large clients through dedicated account managers. We have aligned a majority of our sales and marketing teams to focus on specific industries and geographies. In addition to our sales executives, we have industry experts and solution architects who complement our sales efforts by providing specific industry and service line expertise. Our sales efforts are also supported by our marketing professionals, who assist in brand-building and tracking our expertise.

Our senior management and dedicated account managers are actively involved in managing client relationships and business development through targeted interaction with multiple contacts throughout our clients organizations. We aim to develop our client relationships into partnerships by working closely with our clients managers and senior executives to formulate and execute an offshore outsourcing strategy, implement engagement models that suit their particular challenges and explore new service lines.

We undertake detailed periodic reviews to identify existing and prospective clients that we believe can develop into large, strategic clients. We intend to focus on adding more strategic accounts, which we define as those who provide \$5.0 million or more in annual revenues or those with

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

whom we believe we have the potential to achieve such annual revenue amounts over a 24 to 30 month period. For each strategic client, a senior executive is identified and charged with managing the overall client relationship and leading periodic reviews with the client.



Table of Contents

We have 30 sales offices across North America, Europe, Japan and the rest of the Asia-Pacific region and 243 sales and marketing personnel who are supported by dedicated industry specialists. We set targets for our sales personnel at the beginning of each year, which are subject to periodic reviews. In addition to a base salary, our compensation package for sales personnel includes an incentive-based compensation plan driven by achievement of the prescribed sales targets.

Our sales and marketing professionals help promote the Patni brand through targeted analyst outreach programs, trade shows, white papers, sponsorships, workshops, road shows, speaking engagements and global public relations management. We believe that a stronger brand will facilitate our ability to gain new clients and to attract and retain talented professionals.

**Clients**

We market our services to clients located in the United States, Europe, India, Japan and Others. A significant proportion of our revenues is derived from clients located in the United States, as illustrated in the table below:

	2008	Fiscal year ended December 31, 2009	2010
United States	75.9%	78.9%	79.8%
Europe	15.7%	12.7%	11.4%
India	0.9%	1.0%	2.2%
Japan	3.5%	3.5%	3.1%
Others	4.0%	3.9%	3.5%
Total	100.0%	100.0%	100.0%

Further, proportion of our revenues have been derived historically from the insurance, manufacturing, retail and distribution, financial services, communications, media and utilities industries and technology practice consisting of product engineering services, as illustrated in the table below.

	2008	Fiscal year ended December 31, 2009	2010
Insurance	24.7%	29.7%	30.3%
Manufacturing, retail and distribution(1)	28.9%	29.0%	30.3%
Financial Services	12.8%	12.8%	11.6%
Communications, media and utilities(2)	17.9%	13.5%	11.2%
Product Engineering	15.7%	15.0%	16.6%
Total	100.0%	100.0%	100.0%

---

(1) From January 1, 2009, we have renamed our manufacturing segment industry practice as manufacturing, retail and distribution.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

(2) From January 1, 2009, we have renamed our communications, media and entertainment practice as communications, media and utilities.

Although we believe we have successfully diversified our client base over the past three years, a significant proportion of our revenues are derived from a small number of clients, as illustrated in the table below:

	Fiscal year ended December 31,		
	2008	2009	2010
State Farm Insurance	9.8%	11.9%	10.9%
General Electric	10.7%	10.3%	10.9%
Top 5 Clients	32.7%	36.5%	35.9%
Top 10 Clients	45.6%	49.7%	48.8%

The following table illustrates a breakdown of our largest clients by revenue categories on a cumulative basis:

	Fiscal year ended December 31,		
	2008	2009	2010
No. of \$ 1 million + clients	92	92	99
No. of \$ 5 million + clients	30	26	28
No. of \$ 10 million + clients	19	15	16
No. of \$ 25 million + clients	5	4	4
No. of \$ 50 million + clients	2	2	3

Table of Contents

*Contractual Arrangements*

We enter into non-exclusive MSAs with clients that typically have a specified term and contain general rights and obligations governing our relationship with the client. The MSAs specify the broad scope of work and typically do not include any commitment by the client to give us a specific volume of business or future work. For each work assignment, the client and we enter into separate work orders with the client that specify the types of services we are required to provide to the client, the performance levels and the price terms. Although some of our MSAs contain the billing rates for time and materials work orders, for most of the services we provide, whether on a time and materials basis or on a fixed-price basis, the separately agreed work order contains the specific pricing and other commercial terms.

Most of our MSAs, including the MSAs with our two largest customers, State Farm Insurance and General Electric, can be terminated with or without cause, with 0 to 90 days notice and without termination-related penalties. The MSAs typically contain terms that:

- require us to provide various representations and warranties, including those relating to the services we perform;
  
- require us to maintain confidentiality relating to the client and the contract, including compliance with various laws relating to privacy and data protection;
  
- require us to protect the intellectual property of our clients;
  
- require us to comply with certain security obligations, including maintaining network security and back-up data, ensuring our network is virus free and verifying the integrity of employees who work with our clients by conducting background checks;
  
- require us to indemnify the client, including for third party intellectual property infringement;
  
- limit the liabilities of both parties under the contract; and
  
- provide for reciprocal non-solicitation of employees by our clients and us.

The MSAs typically do not stipulate that we are the preferred supplier for the customer and do not provide that we are entitled to any minimum amount of work or revenues from the customer.

## Competition

The market for IT services is rapidly evolving and highly competitive. We expect that competition will continue to intensify. We face competition or competitive pressure from:

- Indian IT services companies, such as, Tata Consultancy Services Limited, Infosys Technologies Limited, Wipro Limited, HCL Technologies Limited and Tech Mahindra;
- international IT services companies, such as Accenture, Cognizant Technology Solutions, Computer Sciences Corporation and Syntel;
- divisions of large multinational technology firms such as IBM, and Hewlett-Packard, Capgemini , Atos Origin and Logica
- in-house IT departments of large corporations;
- other international, national, regional and local firms from a variety of market segments, including major international accounting firms, systems consulting and implementation firms, applications software firms, service groups of computer equipment companies, general management consulting firms, programming companies and temporary staffing firms;
- offshore service providers in other countries with low wage costs such as China and the Philippines, and countries in Eastern Europe and Latin America; and
- involvement of third party intermediaries who negotiate IT services and outsourcing contracts on behalf of their clients.

A number of our international competitors are setting or have set up operations in India. Further, a number of our international competitors with existing operations in India have ramped up their presence as offshore operations in India have become an important element of their delivery strategy.

We believe that price alone is not a sustainable competitive advantage in an environment where IT solutions are becoming increasingly critical to clients' core corporate strategy. We have therefore built our competitive position on our ability to leverage our industry specific knowledge and experience in a broad range of IT services, to manage and maintain large client relationships, to continually monitor and improve our delivery excellence and to attract and retain highly-skilled software professionals.



Table of Contents

**Innovation**

We believe innovation should be institutionalized so as to ensure our ability to help clients meet emerging challenges. We have two groups involved in our research and development activity initiatives, the product and technology initiatives group and the delivery innovation group. We also have a business analysis group that serves as a channel between our clients and our innovation groups to provide analysis on the trends in client requirements and evolving needs.

***Service and Technology Initiatives***

The product and technology initiatives group is focused on applied research and development initiatives and employs emerging technologies to create new technology service offerings. The group has established systems to harness talent among our employees by providing a shared framework for idea generation. The group is responsible for identifying, evaluating and incubating new technology service offerings and later converting relevant technology offerings into centers of excellence. The current focus areas of the group include service oriented architectures and their usage in building next generation applications, mobile computing and its applications, usage of RFID technologies and legacy systems modernization.

***Delivery Innovation***

Our delivery innovation group is focused on providing operational excellence and serving our customers in the most efficient manner. This group's activities include developing best practices and refining our methodologies, tools and techniques used in the software engineering and project management activities, improving estimation processes and adopting new technologies for improving productivity. The delivery innovation group consists of professionals who are experts in process improvement and automation and who also act as a resource center for our nascent service lines such as our quality assurance services.

**Human Resources**

We employed 14,894, 13,995 and 17,642 employees as of December 31, 2008, 2009 and 2010, respectively. Out of 17,642 employees, 13,259 were software professionals as of December 31, 2010. Of these software professionals, 2,482 employees were categorized as onsite and 10,777 as offshore. The geographic breakdown for our employees as of December 31, 2010 was as follows:

<b>Geography</b>	<b>Number of Employees</b>
<b>India</b>	14,326
<b>North America</b>	2,694
<b>Rest of the World</b>	622
<b>Total</b>	17,642

We strongly believe that our ability to maintain and continue our growth depends to a large extent on our strength in attracting, developing, motivating and retaining the talent. We operate in seven major cities in India, which enables us to recruit technology professionals from different parts of the country. The key elements of our human resource management strategy include Talent Acquisition, learning and development, rewards and retention.

None of our employees are represented by a union.

### ***Talent Acquisition***

Our hiring plan is driven by annual budgets, business requirements and also based on business forecasting and business plans for the next few years. Manning and wage bills are tracked on a regular basis through various MIS reports by management. We recruit talent from premier universities, colleges and institutes in India, including the Indian Institutes of Technology, or the IITs, National Institutes of Technology or the NITs (formerly, RECs), and Indian Institutes of Management, or the IIMs. For our offshore facilities located in India, our campus recruiting team visited over 100 campuses in 2010. Software candidates are put through a series of tests and interviews such as aptitude, technical and language proficiency test followed by technical and behavioral interview as a part of selection process. We have a similar competitive recruitment program in place for our lateral hires. All new hires are inducted into our organization through a structured orientation program, which involves extensive training as well as mentoring. We believe that we have a strong competitive hiring process in place which is ably supported by a highly skilled global hiring team to attract talent globally.

Our software employees are highly-skilled and have diverse educational backgrounds. As of December 31, 2010, graduate engineers comprised 69.7%, post graduate engineers comprised 4.1%, employees with master's degrees in computer applications or computer management comprised 12.6% and employees with masters in business administration and equivalent qualifications comprised 3.3% of our software professionals. Employees with other degrees comprised 10.4% of our software professionals.

Table of Contents

We believe that we have a balanced mix of experience with approximately 41.7%, 25.7% and 32.7% of our software professionals with work experience of less than 3 years, 3 to 6 years and over 6 years, respectively, as of December 31, 2010.

***Learning and Development***

As a part of our strategy, we have technical, behavioral and role based training for our employees. These training courses facilitate the trainees to acquire required skills in a short span of time. The courses offered have been designed and developed by a pool of experienced trainers and technical leaders. We also have a transparent evaluation system for tracking performance and identifying potential that results in individual development plans or IDPs that help build capabilities and recognize preferences of our employees. These training programs are customized to suit training requirements of the customers. We also have a rich set of eLearning Programs for self learning as well as blended learning. In addition we also provide Interactive online training through the Internet/Intranet in Virtual Classroom mode. Our training plans are personalized seek to and address both technical and soft-skill requirements. For each software professional, we plan a minimum of 10 working days of training per year. Certain of these programs are listed below:

- **eMEP (PGCPM) Post Graduate Certificate Program in Management by IIM Kozhikode**, delivered in different cities using the satellite based e-class room facilities.

- **BITS:** This initiative was started in March 2004, where in Patni had a tie up with BITS Pilani for MS Software Engineering and MS Embedded Systems. Approximately 39 people have obtained a masters degree through this program

- **Technology Certifications for Developers**

A 4 level certification framework has been defined for developers in various lines of technology. The certification levels are defined as L1 (entry), L2 (intermediate), L3 (advanced) and L4 (expert). Each certification is backed with a comprehensive assessment.

- **Technology Certifications for Designers**

A similar 2-level framework has been rolled out for the technical designers based on inputs from our technical architect community.

- **New Manager Development Programme**



We believe that the challenges faced by a project manager have changed significantly over the last few years, in terms of customer expectations, team dynamics, and service diversity. A comprehensive program covering various areas connected with project management has been designed so that project managers become more effective in their role.

### **High Performance Organization ( HPO )**

HPO is an integrated initiative focusing on a spectrum of people and business processes aimed at enabling us to become a great place to work. The pivotal points of an HPO are role clarity to all; outcome oriented performance management emphasizing on meritocracy; total rewards and recognition for high performance; talent management; learning and career development based on competencies for distinct career tracks; and organisational growth leading to high employee and customer engagement.

### ***Rewards***

In order to address the challenges in attracting the right talent from the market in the context of the recent demand-supply mismatch, we have adopted the total rewards approach which includes a role based organization and a role based market aligned compensation, policy framework and incentive architecture. We believe that this approach will help us attract and retain the best resources over our competitors. We believe that we have a robust process in place to monitor our compensation against market benchmarks periodically to ensure we are market competitive.

In addition to market aligned annual increases, we have strengthened the variable pay and incentive architecture across levels and geographies to drive our growth agenda and align individual performance to our overall organisation business objectives. We continue to grant stock options to our senior employees to nurture the spirit of ownership and commitment towards the Company.

### ***Retention***

We believe that human resources are the most critical resource, direct revenue contributor and an integral part of any IT business model. At Patni, we are focused on attracting, developing and retaining the best talent in

Table of Contents

the market. We clearly understand that the best talent comes at a price and we believe that the Total Rewards approach helps us to provide differentiated compensation for critical talent.

The focus of our retention strategy is a whole host of development initiatives and engagement initiatives that endeavor to make Patni a preferred destination for every employee. Our human resources philosophy seeks to provide a comprehensive Employee Experience to each of our employees through a high touch engagement, strong focus on recognition programs, skill augmentation, role enhancement, employee-friendly policies & numerous learning opportunities during an employee's stint in the organization.

While a new employee is inducted into the system through various initiatives like Just Joined, FOUR, Fresh Eyes & E-induction etc, many other forums like Patni Explorer, Knowledge Management, eDude, Leadership Excellence at Patni (LEAP) model, specialized development programs from institutes such as BITS, Pilani & IIM-K facilitate his knowledge quest. Besides, to facilitate communication between management & employees and to resolve their queries and concerns, we have initiatives like e-care, skip-level meets, town hall meetings, etc. We are concerned about the health and well-being of our employees which is reflected through our all-encompassing benefits schemes. In order to take stock of engagement levels of employees, we also conduct regular climate surveys, the recent one being conducted in collaboration with Hewitt. As a part of our recognition strategy, we have initiatives both monetary and non monetary in nature i.e. appreciation boards, valuable contribution awards, spot awards, Pat on the Back, Winners Circle to recognize the employee contributions. These initiatives have been very well received and appreciated by employees.

We have been awarded the 16th rank for Best Employer survey organized by DataQuest IDC and also received an award for Innovative Retention Strategies at the World HRD Congress 2010.

**Seasonality**

Our IT services business is not affected by seasonality.

**Government Regulation**

Regulation of our business by the Indian government affects our business in several ways. Currently, we benefit from tax holidays given by the Government of India for the export of IT services from specially designated software technology parks, or STPs and special economic zones, or SEZs, in India. These tax incentives currently include a 10-year holiday from the payment of Indian corporate income tax for the operations of most of our Indian facilities in STPs, and for units in SEZs these benefits include 100% tax exemption for five years from date of commencement of operations and thereafter 50% tax exemption for another 10 years on fulfillment of certain conditions. As a result of this tax incentive, a substantial portion of our pre-tax income has not been subject to significant tax in recent years.

The aggregate benefit of these tax holidays and deductions with respect to our net income was \$27.3 million, \$27.1 million and \$36.6 million for 2008, 2009 and 2010 respectively. Our current tax holidays for STP units expire in stages by March 31, 2011. The tax benefits available for some of our facilities have expired and certain others will expire upon completion of 10 years or March 31, 2011. However, the tax holiday for

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

the export of IT service from our SEZ unit will continue to get tax holiday of 100% of the export profits for a period of five years, 50% of such profits for next five years and 50% of the profits for further period of five years subject to satisfaction of certain capital investments requirements from the date of commencement of operations as described above. Consequently, we expect our effective tax rate to increase significantly.

We are also subject to other government regulations, including those relating to acquisition of foreign securities, raising capital outside India and conversion of our equity shares into ADSs.

Please see Item 10. Additional Information , as well as Item 3. D. Key Information Risk Factors for additional information on the effects of governmental regulation of our business.

### Intellectual Property

We rely on a combination of copyright, trademark and design laws, confidentiality procedures and contractual provisions to protect our intellectual property, including our brand identity. We currently do not have any patents. We have registered our trademark and service mark Patni in the U.S., U.K., Germany, Sweden, Japan, Singapore, Korea, Australia, Canada, the Netherlands and in Class 9,16 and 42 in India and have applied to register our trademark and/or service mark in China . We also have 32 trademarks registered in India and one other trademark registered in the European Union and in the U.S. We also have 17 trademarks pending for registration in India and one another trademark pending registration in the U.S. Additionally, we have 3 registered copyrights in India.

There can be no assurance that our applications will be successful or that our efforts to protect our intellectual property will be adequate.

We require our employees and subcontractors to enter into non-disclosure arrangements to limit access to and distribution of our clients proprietary and confidential information as well as our own. Generally we are

Table of Contents

responsible to our clients for complying with certain security obligations including maintaining network security, backing-up data, ensuring our network is virus free and verifying the integrity of those employees that work with our clients by conducting background checks. There can be no assurance that we will be able to comply with all such obligations without incurring any liability.

In addition, the terms of our client contracts often impose particular confidentiality and security standards. We have independently established a system of security measures to protect our computer systems from security breaches and computer viruses that may attempt to gain access to our communications network. We have deployed advanced technology and process-based methods to ensure a high level of security and we continually monitor such technologies to ensure that we maintain such levels consistently. Some of these components include clustered and multilevel firewalls, intrusion detection mechanisms, vulnerability assessments, content filtering, antivirus software and access control mechanisms. We use encryption techniques as required. We control and limit access to client-specific project areas.

Although we believe that our intellectual property rights do not infringe on the intellectual property rights of any other party, infringement claims may be asserted against us in the future. There are currently no material pending or threatened intellectual property claims against us.

**4.C. Organizational structure**

We have the following direct and indirect subsidiaries as of December 31, 2010, all of which are wholly-owned:

	<b>Country of Incorporation</b>
Patni Americas, Inc.	USA
Patni Computer Systems (UK) Limited	UK
Patni Computer Systems GmbH	Germany
Patni Computer Systems Brasil Ltda(1)	Brazil
Patni (Singapore) Pte. Ltd.	Singapore
PCS Computer Systems Mexico, SA de CV	Mexico
Patni Telecom Solutions, Inc.(2)	USA
Patni Telecom Solutions Private Limited(3)	India
Patni Telecom Solutions (UK) Limited(3)	UK
Patni Life Sciences, Inc.(2) (5)	USA
Patni Computer Systems (Czech) s.r.o(4)	Czech Republic
CHCS Services Inc.(2)	USA P
Patni Computer Systems Japan Inc.(6)	Japan
Patni Computer Systems (Suzhou) Co.,Ltd.(6)	China

---

(1) Dissolved in October 2010

(2) Owned through Patni Americas, Inc.

(3) Wholly-owned subsidiary of Patni Telecom Solutions, Inc.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

(4) Wholly -owned subsidiary of Patni Computer Systems (UK) Limited.

(5) Effective October 1, 2010 it has been merged with Patni Americas Inc

(6) Owned through Patni (Singapore) Pte. Ltd.

Patni Computer Systems Japan Inc. entered into Joint Venture Agreement (49% ownership interest) with J R Kyushu System Solutions Inc. The Joint Venture Company J R Kyushu Patni Systems Inc. has been incorporated on July 1, 2010.

Post completion of the acquisition of our shares by iGATE, we would become a separate operating subsidiary of iGATE Corporation since they will own majority of our shares.

### **4.D. Property, plant and equipment**

A key component of our global delivery model is the telecommunication linkages between client sites and our sites and between our distributed sites in India. We have designed a global network architecture which provides client connectivity, offshore development center connectivity and internet connectivity. This network provides seamless access and uses high availability networks and advanced routing protocols for redundancy and availability. Although we rely on third parties, such as telecommunications providers and internet service providers to provide such services, we ensure that we have multiple service providers using multiple routes and media to attain high levels of redundancy, availability and performance. We have dedicated teams to monitor the operations of our network operations 24 hours a day and seven days a week. We use encryption techniques for confidentiality of data as required.

Our principal executive offices are located at Mumbai, India. Our North American headquarters are located in Cambridge, Massachusetts These facilities are used primarily for management functions and support functions such as sales, marketing and general administration.

We have state-of-the-art facilities in nine locations in India where our technical staff is located and which serve as our primary delivery centers. We also have imaging centers and distribution centers in the United States and in the United Kingdom for handling the digital processing of documents.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

### Table of Contents

Our locations in India are as follows as at December 31, 2010:

No.	Property	Square Feet	Industry/Technology Practices Covered/Services Provided
1.	Mumbai		
	Owned	130,474	
	Leased	53,174	
	Total Mumbai	183,648	Manufacturing, Financial Services, Other, Product Engineering Services
2.	Pune		
	Owned	75,477	
	Leased	232,473	
	Total Pune	307,950	Insurance, Manufacturing, Communications, media and utilities, Other, Enterprise Application Systems, Enterprise Systems Development
3.	Gandhi Nagar		
	Owned	37,000	
	Leased	15,260	
	Total Gandhinagar	52,260	Insurance, Other
4.	Chennai		
	Owned	148,000	Financial Services, Manufacturing, retail and distribution
5.	Noida		
	Owned	460,000	Financial Services, BPO
6.	Hyderabad		
	Owned	8,497	
	Leased	89,000	
	Total Hyderabad	97,497	Communications, media and utilities
7.	Bangalore		
	Leased	78,343	Manufacturing, retail and distribution, Product Engineering Services
8.	Thane		
	Owned	91,159	
	Leased	45,511	
	Total Thane	136,670	Insurance, Manufacturing, retail and distribution, Financial Services, Enterprise Application Systems
9.	Airoli		
	Owned	462,845	Enterprise Application Systems, Product Engineering Services, Financial Services, Others
	Total	1,927,213	

We currently have capacity for approximately 18,400 professionals at these facilities. As of December 31, 2010, we had used approximately 75 % of our existing office space in our operations.

We have approximately 150,000 square feet of leased software development facilities in 5 countries outside India.

Most of our global branch offices located outside of India are used for sales and marketing.



Table of Contents

We have 30 sales and marketing offices located in the following locations:

In keeping with our plans for expansion, we have constructed new facilities in India, which includes three knowledge parks in Chennai, Navi Mumbai and Noida. These knowledge parks have state-of-the-art infrastructure with extensive workspace and training facilities and a modular design for ease of segregation of dedicated projects with ability to provide scale and service to clients from one location. Our Noida Knowledge Park was awarded the prestigious LEED Platinum (Leadership in Energy and Environmental Design) rating jointly by the U.S Green Building Council and the Indian Green Building Council for our Green IT-BPO Centre This makes our Knowledge Park the second largest Platinum rated building in the world, and the largest Platinum rated building outside the United States.

The Navi Mumbai, and the Chennai facilities are expected to accommodate up to 14,000 and 10,000 engineers, respectively, when fully completed. We estimate that we may spend an aggregate of approximately \$ 140 million to complete these two projects. Phase I of the Navi Mumbai facility, having a capacity of 4,300 seats, is complete and occupied. Phase I of the Chennai facility, having a capacity of 1,200 seats, is complete and partially occupied.

Construction of the Noida SEZ facility is completed with capacity to accommodate 3,300 Seats and is partially occupied.



As of December 31, 2010, we had spent approximately \$101.3 million on the knowledge parks. The estimated amounts (net of advances) remaining to be executed on contracts in relation to capital expenditure for the construction of various facilities, aggregated approximately to \$54.5 million as of December 31, 2010 which will be executed over a three year period.. We anticipate that expenditures for our expansion plans will total approximately \$10 to \$15 million in 2011.

In continuation of our policy to have our own campus operations, we have acquired land in Pune, Hyderabad and Kolkata in addition to our campuses in Mumbai Chennai and Noida. These facilities when fully built are expected to have a seating capacity for approximately 25,000 professionals.

For the Chennai facility, we have entered into a lease dated September 30, 2004 with the State Industrial Promotion Corporation of Tamil Nadu, or SIPCOT. We have acquired 18.75 acres of land near Chennai for a lease term of 99 years to establish a project in connection with software development and support services. According to the terms of the agreement, we require SIPCOT's prior approval if we intend to assign, sub-let, transfer or part with the interest in the allotted plot and for any change in the composition of our Board of Directors that causes a change in ownership or management. Further, for the Mumbai facility we have entered into license agreements dated February 10, 2005, with the Maharashtra Industrial Development Corporation, or MIDC. We have been granted licenses to construct facilities over 50 acres of land in a phased manner in Navi Mumbai. Our occupation of the land is subject to entering into a lease agreement with a term of 95 years. We have entered into lease agreements for 15 acres and will soon be entering into lease agreements for 35 acres. This land may only be used for activities related to the information technology industry.

Table of Contents

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

None

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following discussion of our financial condition and results of operations of our company should be read in conjunction with the financial statements and the related notes included elsewhere in this document. This discussion contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please see Item 3.D. Key Information Risk Factors.

**Overview**

We are a leading Indian provider of information technology services. We deliver a comprehensive range of IT services through globally integrated onsite and offshore delivery locations primarily in India, which we call our global delivery model. We offer our services to customers through industry-focused practices, including insurance, manufacturing, retail and distribution, communications, media and utilities and financial services, and through technology focused practices. Within these practices, our service lines include application development, application maintenance and support, packaged software implementation, infrastructure management services, product engineering services, business process outsourcing and quality assurance services.

Our revenues have grown from \$ 578.9 million in 2006 to \$ 701.7 million in 2010, representing a CAGR of 4.9 %. Our net income has grown from \$ 59.2 million in 2006 to \$ 133.2 million in 2010, representing a CAGR of 22.5%. Our total number of employees was 12,804 as of December 31, 2006 and 17,642 as of December 31, 2010. We have invested in new high-tech facilities, which we refer to as knowledge parks , designed for expanding our operations and training our employees. We have 243 sales and marketing personnel supported by dedicated industry specialists in 30 sales offices around the globe, including North America, Europe, Japan and the rest of the Asia-Pacific region.

Our industry segments comprise of financial services, insurance services, manufacturing, retail and distribution companies, communications, media and utilities and technology practice (comprising product engineering). We evaluate segment performance and allocate resources based on revenue growth. We categorize revenue in relation to segments based on items that are individually identifiable with that segment. Costs are not specifically allocable to individual segments as the underlying resources and services are used interchangeably. Fixed assets used in our business or liabilities contracted have not been identified with any of the reportable segments, as the fixed assets and services are used interchangeably between segments.

Our management evaluates our results of operations by examining financial and operating data in a variety of categories, including our industry and technology practices, onsite and offshore revenues, type of contract, type of customer and geographic region. We manage and market our business according to our industry and technology practices.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

We have also developed technology practices that offer research, design and development services for product engineering and to ISVs. Our service lines support both our industry and technology practices. We do not, however, treat our service lines as separate components of our business for financial reporting purposes.

On January 10, 2011, Pan-Asia iGATE Solutions and iGATE Global Solutions Limited, or the Acquirers, subsidiaries of iGATE, announced, that they had entered into definitive agreements to purchase shares representing in the aggregate 63.0% of our equity capital held by our major shareholders, comprising the Promoter group (Mr. Narendra Patni, Mr. Gajendra Patni and Mr. Ashok Patni) and General Atlantic Mauritius Limited) at a purchase price of Rs.503.5 (\$11.3) per share. The proposed acquisition of such shares is subject to regulatory approvals and other closing conditions. Please see Item 8 B Significant Changes for more information.

### 5.A. Operating results

#### Revenues

We discuss below the components of our IT service revenues by onsite and offshore revenues, industry and technology practice, contract type, customer type and customer geography.

#### *Onsite and Offshore Revenues*

We derive revenues from the provision of services offshore and onsite. Offshore revenues consist of revenues from IT services work conducted in India. Onsite revenues consist of revenues from IT services work conducted at clients' premises outside India or from our limited number of premises outside India. Although a substantial portion of our software personnel are located at our offshore locations, our customers generally pay higher charges for onsite work, which is consistent with our industry practice.

The global economic downturn in fiscal 2009 was widespread, leading to economic contraction in many industries and geographies where we operate. It also impacted the buying behavior of our clients and our revenue mix. In addition we have experienced pricing pressures as some of our customers requested pricing changes through volume discounts or by reducing base prices. In order to provide competitive pricing to our

Table of Contents

customers, we have endeavored to shift the delivery of our services from onsite locations to low cost offshore delivery centers at the same time managing the price softening expectations from our customers.

As of December 31, 2009, 11,264 of 13,995 total employees were located in India and as of December 31, 2010, 14,326 of 17,642 total employees were located in India. We measure our service efforts that can be billed to clients in units of billed person-months. The number of offshore billed person-months has increased as a percentage of total billed person-months from 72.6% in 2009 to 73.3% in 2010.

To some extent, the onsite/offshore breakdown by billed person-months varies by industry and technology practices as is illustrated in the table below. For example, insurance and communications, media and utilities employ a higher level of onsite personnel than other industry and technology practices. Within our industry and technology practices, our offshore and onsite breakdown by billed person-month is as follows:

	Year ended December 31, 2009			Year ended December 31, 2010		
	Onsite Billed Person- months	Offshore Billed Person- months	Total	Onsite Billed Person- months	Offshore Billed Person- months	Total
Financial Services	4,265	11,660	15,925	4,357	10,952	15,309
Insurance	10,582	24,512	35,094	11,732	24,357	36,089
Manufacturing, retail and distribution(1)	8,682	25,457	34,139	9,136	28,572	37,708
Communications, media and utilities(2)	5,095	7,938	13,033	4,256	10,111	14,367
Product Engineering	3,738	16,350	20,088	5,175	21,357	26,532
Total	32,362	85,918	118,280	34,657	95,349	130,006

(1) From January 1, 2009, we have renamed our manufacturing segment industry practice as manufacturing, retail and distribution.

(2) From January 1, 2009, we have renamed our communications, media and entertainment practice as communications, media and utilities.

Certain of our service lines, such as product engineering services and business process outsourcing, employ a greater level of offshore personnel, whereas our packaged software implementation service line utilizes a larger portion of onsite work compared to most of our other service lines.

Since 2004, we have seen a trend towards greater use of offshore services, which has positively affected our profitability. Services performed at a client site or our premises located outside India typically generate higher revenues per employee, but at a lower gross margin, than the same services performed at our facilities in India. These differences are attributable to the higher billing rates getting compensated by higher average cost of labor in the United States and other countries in which work is performed as compared to India. Accordingly, although offshore work (measured by billed person-months) is expected to increase, we do not expect that the mix of our onsite and offshore revenues will change significantly in the near future.

The above measurement of work does not reflect the actual revenues derived by us during the relevant period and you are cautioned not to estimate revenues in a particular period on the basis of these offshore and onsite billed person-months during such period.

*Revenues by Industry Segments*

Our operations pertain to provision of IT services and solutions to customers belonging to various industries such as insurance, manufacturing, retail and distribution, communications, media and utilities and financial services and also to technology practices. Accordingly, revenues represented along industry classes comprise the principal basis of segmental information.

We derive a significant proportion of our revenues from clients in the insurance, manufacturing, retail and distribution, communications, media and utilities and financial services industries. In addition, we market our services to clients through our technology practices, comprising our product engineering practice. The following table indicates the breakdown of our revenues by our industry and technology practices:

Table of Contents

## Industry Segments

	Year ended December 31,		
	2008	2009	2010
<i>Industry Practice</i>			
Insurance	24.7%	29.7%	30.3%
Manufacturing Retail & Distribution(1)	28.9%	29.0%	30.3%
Financial Services	12.8%	12.8%	11.6%
Communications, Media and Utilities(2)	17.9%	13.5%	11.2%
<i>Technology Practice</i>			
Product Engineering	15.7%	15.0%	16.6%
Total	100.0%	100.0%	100.0%

(1) From January 1, 2009, we have renamed our manufacturing segment industry practice as manufacturing, retail and distribution.

(2) From January 1, 2009, we have renamed our communications, media and entertainment practice as communications , media and utilities.

**Revenues by Contract Type**

Our revenues are recorded either on a time-and-material, or T&M, basis or a fixed-price basis. The following table shows our revenues by contract type:

	Year ended December 31,		
	2008	2009	2010
Time-and-Material	64.0%	59.4%	55.4%
Fixed Price	36.0%	40.6%	44.6%
Total	100.0%	100.0%	100.0%

Our fixed price business has increased from 36.0% in 2008, 40.6% in 2009 to 44.6% in 2010, which is in line with our operating focus as we help clients optimize their cost structures.

Although we seek to use our software engineering processes and past project experience to reduce the risks associated with estimating, planning and performing fixed-price projects, we bear the risk of cost overruns and completion delays in connection with fixed-priced contracts. Accordingly, we believe that we bear a greater amount of risk from our fixed-price contracts than from our T&M contracts.

A large proportion of our revenues from fixed-price contracts are from fixed-price SLAs. A large proportion of our fixed-price SLAs are application maintenance and support projects, as to which work and cost estimates have been fairly predictable. Our revenues from fixed-price SLAs were 22.7%, 29.5% and 32.8% in 2008, 2009 and 2010, respectively.

Revenue with respect to T&M contracts are recognized in the period that the services are performed. Revenue with respect to fixed-price SLA contracts are recognized ratably over the term of maintenance. Revenue with respect to other fixed-price contracts is recognized on a percentage of completion basis, measured by the percentage of costs incurred to date compared to the estimated total costs for each contract. See Critical Accounting Policies Revenue Recognition below.

**Revenues by Top Customers**

As illustrated in the table below, a significant proportion of our revenues are derived from a small number of clients. In recent years, however, we have diversified our client revenues as a result of various initiatives, including our addition of new strategic clients, our focus on additional industry practices, our development of technology practices and our expansion of the range of service lines we offer. In 2010, we had 99 clients, whom generated revenues of \$1.0 million or more as compared to 92 in 2009 and 2008 each. We expect that this trend toward greater client diversification will continue.

	2008	Fiscal year ended December 31, 2009	2010
State Farm Insurance	9.8%	11.9%	10.9%
General Electric	10.7%	10.3%	10.9%
Top 5 Clients	32.7%	36.5%	35.9%
Top 10 Clients	45.6%	49.7%	48.8%

Table of Contents**Revenues by New and Existing Customers**

Repeat business accounted for 93.0%, 94.0% and 94.6% of our revenues in, 2008, 2009 and 2010. Each customer is treated as a new customer for the quarter in which it first starts business with us and continues to remain as a new customer for the four succeeding quarters. The revenues in any quarter from customers other than new customers are termed as repeat business.

The following table indicates the breakdown of revenues we derive from new customers and existing customers.

	Year ended December 31, 2010		Total
	Existing Customers	New Customers (\$ in millions)	
Industry Practice			
Insurance	210.2	2.2	212.4
Manufacturing, retail and distribution(1)	201.8	10.6	212.4
Financial Services	72.0	9.5	81.5
Communications, media and utilities(2)	74.8	3.6	78.3
Technology Practice			
Product Engineering	105.4	11.7	117.1
Total	\$ 664.1	\$ 37.6	\$ 701.7

- (1) From January 1, 2009, we have renamed our manufacturing segment industry practice as manufacturing, retail and distribution.
- (2) From January 1, 2009, we have renamed our communications, media and entertainment practice as communications, media and utilities.

Although we engage in one-time projects in some service lines, the majority of our projects are recurring in nature. Work done in product engineering services and packaged software implementation services, however, tends to be more for non-recurring projects.

**Revenues by Geography**

We record our revenue based on the location of our clients rather than according to the location where our services are provided. We classify our revenues into five geographic segments: the United States, Europe, India, Japan and Others. As the table below illustrates, a significant proportion of our revenues is derived from clients located in the United States. We expect that a substantial majority of our revenues will continue to be derived from clients located in the United States. We categorize revenues geographically based on the location of the specific client entity for which the project has been executed, irrespective of the location at which the invoice is rendered or whether the work for a specific client entity is performed onsite or from our offshore delivery centers in India.



## Edgar Filing: Patni Computer Systems LTD - Form 20-F

	Fiscal year ended December 31,		
	2008	2009	2010
United States	75.9%	78.9%	79.8%
Europe	15.7%	12.7%	11.4%
India	0.9%	1.0%	2.2%
Japan	3.5%	3.5%	3.1%
Others	4.0%	3.9%	3.5%
Total	100.0%	100.0%	100.0%

### Expenses

#### *Cost of Revenues*

Cost of revenues represented 68.3%, 64.2% and 65.0% of our revenues in 2008, 2009 and 2010. Our cost of revenues largely consists of costs relating to our software professionals, including salary and other compensation and benefits expenses, travel expenses, immigration expenses, data communications expenses, computer and software expenses and depreciation. Cost of revenues also includes the cost of subcontractors.

The principal component of our cost of revenues is the salary cost of our software professionals. A majority of our software professionals are located in India. The majority of our compensation costs relate to salaries of software professionals located in the United States and those other countries where our customers are located, as we charge higher rates and incur higher compensation cost for services rendered in countries where our customers are located. We seek to maintain salary levels in accordance with prevailing trends in our industry.

We hire subcontractors on a limited basis from time to time. We use subcontractors across our industry practices and service lines. The use of subcontractors is more prevalent in service lines that have a larger onsite element, such as packaged software implementation and infrastructure management services. We expect to

Table of Contents

continue to incur subcontractor costs principally to service specific technical requirements of some of our clients in a timely manner.

The utilization rates of our software professionals also affect our gross profits. We define employee utilization as the proportion of total billed person-months to total available person-months, including employees in training and holiday and vacation time, and excluding support personnel. We manage utilization by monitoring project requirements and timetables. The number of software professionals assigned to a project varies according to the size, complexity, duration, and demands of the project. Our utilization rates for the years ended December 31, 2008, 2009 and 2010 were 72.1%, 74.9% and 75.3%. We try to minimize the cost impact of unutilized capacity by ensuring that a majority of our unutilized capacity is attributable to software professionals based in India.

We incur immigration costs due to the onsite component of work performed on projects. We expect immigration expenses to increase due to increases in visa filing costs generally commensurate with our growth and increases in visa filing fees in the United States. We expense costs related to immigration as incurred.

The addition of planned new facilities and physical infrastructure, including our knowledge parks in India, has increased our depreciation expenses. However, that the increased depreciation has been largely offset by reduced rental costs resulting from a shift from existing rental facilities to the new facilities. These new facilities will provide a consolidated location for our existing employees and new employees as we expand our service offerings.

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses consist primarily of costs relating to personnel other than software professionals, including salary and other compensation and benefits expense, depreciation, sales and marketing expenses, telecommunication expenses, office expenses and traveling expenses. Selling, general and administrative expenses also includes legal and other professional fees and other miscellaneous administrative costs.

Selling, general and administrative expenses represented 18.5% ,18.9% and 19.2% of our revenues in 2008, 2009 and 2010. These expenses comprise an important element of our sales strategy, as we seek to ensure that senior management personnel are based in client locations and continue to invest in developing our sales and marketing presence in key markets. We expect selling, general and administrative expenses to continue at current levels as a proportion of revenues. We continue to invest in sales and marketing and in building brand awareness, leading to a slight increase in sales and marketing expenses as a proportion of revenues. We have started to transfer a larger part of our general and administrative expenses offshore to India as the scale of our operations increases. We expect to achieve improved efficiencies in general and administrative expenses as a result of this transfer and economies of scale resulting from our recent growth. Accordingly, we expect our increased selling expenses to be partially offset by a decrease in our general and administrative expenses.

**Foreign Currency Translation and Foreign Exchange Regulations**

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

Our consolidated financial statements are reported in U.S. dollars. Our functional currency is the rupee, though the functional currency of our subsidiaries is the currency of the country in which the subsidiary is located. A substantial portion of our revenues is generated in dollars while a portion of our expenses are incurred in rupees and we expect that this will continue for the foreseeable future. Consequently, our results of operations will be affected to the extent the rupee fluctuates against the dollar.

We seek to mitigate the effect of exchange rate fluctuation on our operating results by entering into foreign exchange forward and option contracts. However, these activities do not entirely mitigate the effects of exchange rate fluctuations. We designated certain forward and option contracts as cash flow hedges. We defer changes in fair value of designated cash flow hedges and record them as a component of accumulated other comprehensive income until the hedged transactions occur, at which time we recognize the gain/loss on these cash flow hedges in our consolidated statements of income. For details on forward and options contracts outstanding as of December 31, 2010 and 2009, see Item 11. Quantitative and Qualitative Disclosures about Market Risk - Exchange Rate Risk .

The translation of the rupee, GBP, EURO, AUD, JPY, SGD, MXN, and CNY into U.S. dollars is performed for balance sheet accounts using the exchange rate in effect at the balance sheet date and for revenues and expense accounts using the exchange rate prevailing on the date of those transactions.

Under the Foreign Exchange Management Act, 1999, or FEMA, as amended, an Indian company is required to take all reasonable steps to realize and repatriate into India all foreign exchange earned by the company outside India, in accordance with the rules specified by the RBI. The FEMA also imposes certain restrictions on capital account transactions by Indian companies. These regulations do not significantly affect our operations at present.

### **Accounts Receivable and Unbilled Revenue**

The key performance indicator used by us for collecting cash from our customers is adjusted days of sales outstanding (ADSO). We analyze and compute our adjusted days of sales outstanding based on both billed

Table of Contents

revenue (accounts receivable) and unbilled revenue for each relevant period. Unbilled revenue represents cost and estimated earnings in excess of billings on uncompleted contracts, net of billings in excess of cost and estimated earnings on uncompleted projects. We define our adjusted days of sales outstanding as the ratio of accounts receivable plus unbilled revenue at year-end to revenues in a year, multiplied by 365. The table below sets out the three year trend of the days of sales outstanding along with unbilled revenue:

	Year ended December 31,		
	2008	2009 (\$ in millions)	2010
Account Receivables	111.8	109.4	121.8
Unbilled Revenue (UBR)	24.7	14.0	23.3*
ADSO including UBR (days)	69	69	75

\* Excludes the advance received of \$10.4 million from one of our customers in August 2010 towards development of software to be delivered by December 2011

The ADSO for the year ended December 31, 2010 is higher at 75 days as compared to 69 days for both years ended December 31, 2009 and 2008 due to higher sales during the last two months of the year 2010 as compared to 2009. The following table presents a profile of our accounts receivable, net of reserves in terms of days for which accounts receivable have been outstanding.

Period in days	Year ended December 31,		
	2008	2009 (\$ in millions)	2010
0-90	102.7	104.9	113.9
91-180	6.7	4.2	6.5
More than 180	2.4	0.3	1.4
Total	111.8	109.4	121.8

In 2008, 2009 and 2010, provision of doubtful debts was \$ 1.6 million, \$ 2.3 million and \$0.6 million, respectively.

**Taxes**

As an Indian company, we are a tax resident of India and are therefore subject to Indian income taxes on our global income. Our net income earned from providing services outside India is subject to tax in the country where we perform the work. Most of our tax paid in countries other than India can be applied as a credit against our Indian tax liability to the extent that the same income is subject to tax in India.

Currently, we benefit from tax holidays given by the Government of India for the export of IT services from specially designated software technology parks, or STPs, and special economic zones, or SEZs, in India. As a result of these tax incentives, a substantial portion of our pre-tax income has not been subject to significant tax in recent years. The aggregate benefit of these tax holidays and deductions with respect to our net income was \$27.3 million, \$27.1 million and \$36.6 million for 2008, 2009 and 2010, respectively. Our current tax holidays for STP units expire in stages by March 31, 2011. The tax benefits available for some of our facilities have expired and certain others will expire upon completion of

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

10 years or March 31, 2011. However the tax holiday for the export of IT service from our SEZ unit will continue to get tax holiday of 100% of the export profits for a period of five years, 50% of such profits for next five years and 50% of the profits for further period of five years subject to satisfaction of certain capital investments requirement from the date of commencement of operations as described above. Consequently, we expect our effective tax rate to increase significantly.

In December 2008, we received a demand from the Indian Income Tax Department of approximately Rs 459 million for the Assessment Year (A.Y.) 2003-04 including an interest demand of Rs 259 million (\$10.3 million including an interest demand of approximately \$5.8 million) and another demand in January 2009 of approximately Rs 1,133 million for the A. Y. 2005-06 including an interest demand of approximately Rs 423 million (\$25.3 million including an interest demand of approximately \$9.5 million). These demands concerned the same issue of disallowance of tax benefits under Section 10A of the Indian Income Tax Act, 1961( Act ) as per earlier assessments. Subsequently, in June 2010, we filed further a extension for stay of demand.

As per the stay of demand order, till December 2010, we have paid the sum of Rs. 66 million (\$1.5 million) for the Assessment Year 2003-04 and Rs.239 million (\$5.3 million) for the A. Y. 2005-06 in respect of the matters under appeal. Our Management considers these demands against us, as not tenable and therefore no provision for this tax contingency has been established.

The Indian Income Tax Department had earlier rejected our claim under section 10A of the Act and raised a demand of approximately Rs. 630 million (\$14.1 million including an interest demand of approximately \$4.2 million) for A.Y. 2004-05 and Rs. 262 million (\$ 5.9 million including an interest demand of approximately \$ 3.1 million) for A.Y. 2002-03 in December 2006 and December 2007, respectively. However on appeal, in 2008 the Commissioner of Income Tax (Appeal) (CIT) had allowed the claim in favour of us under section 10A of the Act. The Indian Income tax department has appealed against the CIT (Appeal s) orders in respect of assessment year

Table of Contents

2002-03 and 2004-05 in the Indian Income Tax Appellate Tribunal. Our Management considers these demands against us, as not tenable and therefore no provision for this tax contingency has been established.

In November 2010, we received a demand order for A.Y.2006-07 for a sum of Rs.1,262 million including an interest demand of Rs.442 million (\$28.2 million including an interest demand approximately \$9.9 million) disallowing tax benefits under Section 10A of the Act as per the earlier assessments, as well as making a Transfer Pricing Adjustment for our BPO operations. We have filed the appeal before the Indian Income Tax Appellate Tribunal and also filed an appeal for the stay of demand with the tax department. Our Management considers these disallowances as not tenable against us, and therefore no provision for this tax contingency has been established.

In December 2010, the Indian Income Tax Department issued a draft assessment order for A.Y.2007-08 disallowing tax benefits under Section 10A of the Act as per the the earlier assessments, as well as making a Transfer Pricing Adjustment for delayed recoveries from Associates Enterprises. We have filed the objections against the draft order before the Dispute Resolution Panel ( DRP ) newly set up under the Income Tax Act, 1961. Our Management considers these disallowances as not tenable against us, and therefore no provision for this tax contingency has been established.

The provisions of the Indian Income Tax Act, 1961 are amended on an annual basis by enactment of the Finance Act. The Finance Act, 2010 has changed the effective tax rate to 33.22%. The Finance Act, 2010 has not changed the short term Capital Gain tax of 15%, and has increased Minimum Alternative Tax (MAT) from 16.995 % to 19.93% (including surcharge and education cess). In addition, we may also be subject to changes in taxation resulting from the actions of applicable income tax authorities in India or from Indian tax laws that may be enacted in the future. For example, we may incur increased tax liability as a result of a determination by applicable income tax authorities that the transfer price applied to transactions involving our subsidiaries and the Company was not appropriate.

Any increases in our effective tax rate, as a result of the expiration of tax benefits we currently enjoy, changes in applicable tax laws or the actions of applicable income tax or other regulatory authorities could materially reduce our profitability.

In 2009, we received a favorable order from the Income Tax Appellate Tribunal allowing the set off of losses of 10A units against Business Income. Based on this the Company has reversed the tax provisions amounting to \$ 2.5 million relating to the above matter for all years up to tax fiscal year ended March 31, 2006.

In 2008, The US Internal Revenue Service ( IRS ) completed its assessment of tax returns for the years ended 2003 and 2004 of Patni Americas Inc. and for the years ended March 31, 2003, 2004 and 2005 of our US branch and in 2009, completed its assessment of tax returns for the years ended 2005 and 2006 of Patni Americas Inc.

Based on the completion of assessment of these years, we reviewed the adequacy of the previously established tax exposure reserves with respect to these years and re-measured the established tax positions for the latter years based on the experience gained from the tax examination and accordingly, the following amounts have been included in the income statement for the fiscal year ended December 31, 2008 and 2009 as a change in estimate:

Edgar Filing: Patni Computer Systems LTD - Form 20-F

	December 31, 2008	December 31, 2009	December 31, 2010
	Amount in \$		
Reduction of accrual for payroll taxes(1)	(2,769,567)	(1,157,726)	
Reduction in interest expense(2)	(6,497,329)	(1,616,046)	
Increase in interest expense	560,507		
Reduction in other expense(3)	(1,092,687)	(231,545)	
Reduction in income taxes - current	(12,496,744)	(9,423,496)	
Increase in income taxes - deferred	4,112,604	1,109,509	
	<b>(18,183,216)</b>	<b>(11,319,304)</b>	

---

(1) Included under cost of revenues

(2) Included under Interest expense reversed

(3) Included under other income/expense

Table of Contents

During the year ended December 31, 2010, the statute of limitation period applicable to tax return of our US branch, for the year ended March 31, 2007, expired as on December 15, 2010 i.e on expiry of 3 years from the date of filing, which was December 15, 2007. We have therefore reversed the tax exposure reserves for taxes and interest amounting to \$6.3 million and \$1.1 million respectively, pertaining to US branch for the year ended March 2007. Also in the year ended December 31, 2009, the statute of limitation period applicable to tax return of our US branch, for the year ended March 31, 2006, expired as on December 15, 2009 i.e on expiry of 3 years from the date of filing, which was December 15, 2006. We have therefore reversed the tax exposure reserves for taxes and interest amounting to \$7.2 million and \$1.2 million respectively, pertaining to US Branch for the year ended March 31, 2006.

**Taratec Acquisition**

On July 23, 2007, we acquired a 100% equity interest in Taratec which has been named as Patni Life Sciences Inc. Taratec is a leading consulting company in the life sciences industry providing integrated business, information technology, and regulatory compliance products and services. We paid an initial purchase price of approximately \$15.7 million, including expenses, of which \$8.3 million has been accounted for as goodwill and \$1.7 million has been accounted for as customer related intangibles. The terms of the purchase also provide for payment of contingent consideration to all of the selling shareholders, payable over a three year period ending on June 30, 2010, and calculated based on the achievement of specified revenue and margin targets. The contingent consideration is payable in cash and cannot exceed \$13.2 million.

Further, as a part of the acquisition, we initiated an incentive plan linked to revenues and margins, for certain specific employees of Taratec and Patni. The incentive payments under this plan will not exceed \$3.5 million through June 2010. Since, the incentive payments are linked to continuing employment; the payments under the plan are recognized as compensation for post acquisition services. Based on assessment of the revenue and margin targets achieved through the contractual year ended July 31 2008, July 31, 2009 and July 31, 2010, the management has concluded that no contingent consideration is required to be paid.

**Logan Orviss Acquisition**

On July 2, 2007, we acquired the business and assets of Logan Orviss, an European telecommunications consulting services company. We paid an initial purchase price of approximately \$8.6 million, including expenses, of which \$6.5 million has been accounted for as goodwill and \$2.1million has been accounted for as customer related intangibles. Further, as a part of the business acquisition, we initiated an incentive plan linked to revenues for certain specific employees. We estimated that incentive payments under this plan will not exceed \$13.1 million until June 2010. Since, the incentive payments are linked to continuing employment, the payments under the plan are recognized as compensation costs for post acquisition services. Based on the assessment of the revenue targets achieved for the contractual year ended June 30, 2008, June 30, 2009 and June 30, 2010 an amount of \$0.1 million, \$0.1 million and \$Nil, respectively has been accrued as selling, general and administrative expenses.

**CHCS Services Acquisition**

On June 9, 2010, we acquired 100% equity interest in CHCS from one of our insurance customers. CHCS is a Third Party Administrator ( TPA ) providing services to insurance companies. The primary purpose for the acquisition is to enter into a new line of business as a TPA in the insurance and healthcare sector, which will enhance our existing BPO capabilities to deliver end-to-end platform based solution and TPA



## Edgar Filing: Patni Computer Systems LTD - Form 20-F

services to insurance providers back office transactions. With this acquisition, we have created a new hub in Pensacola, Florida. As part of the acquisition, we obtained an assembled and trained work force of 250 employees. A considerable expenditure for recruiting, selecting and training would be required to replace these employees with individuals of comparable skills and expertise. The terms of the Stock Purchase Agreement provided for payment of cash consideration of \$6.0 million and an amount equal to the working capital to the selling shareholders. Acquisition-related expenses incurred by us amounted to \$0.6 million which we have recorded under selling, general and administrative expenses. This transaction has been accounted using the acquisition method of accounting. The purchase price of \$7.3 million has been allocated to the acquired assets and assumed liabilities based on management's estimates and independent valuation.

### **Investment in Equity Affiliate**

In June 2010, our subsidiary Patni Computer Systems Japan Inc. entered into Joint Venture Agreement (49% ownership interest) with J R Kyushu System Solutions Inc. The Joint Venture Company J R Kyushu Patni Systems Inc. was incorporated on July 1, 2010. This JV is aimed at providing high quality, cost effective IT and product engineering services to the Japanese enterprise market. We have invested \$0.6 million (JPY 49.0 million) and its equity in losses for the year ended December 31, 2010 was \$ 0.1 million.

Table of Contents

**Purchased Intellectual Property**

In 2007, we acquired from one of our major customers, the worldwide rights for a software proprietary intellectual property rights, or the IPR. The IPR enables communication service providers to offer customer management, retail point-of-sale and billing services for a variety of products and services. The cost of acquisition of the IPR amounting to \$ 20.3 million (GBP 10 million) has been capitalized as an intangible asset and is being amortized over a period of ten years. We use this intellectual property for the purposes of software licensing, provision of reusable IP-led IT services, managed services and provision of hosted or software-as-a-service solutions. A royalty of 5% is payable to the seller on such sales.

An impairment loss shall be recognized only if the carrying amount of a long-lived asset (asset group) is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). If the carrying value exceeds the expected undiscounted cash flows of the asset, then the impairment loss to be recognized is the amount by which the carrying value of the asset exceeds the fair value of the asset.

During 2009, due to adverse market conditions, we reviewed the recoverability of the carrying amount of the IPR. Based on the results of the recoverability test, the sum of the undiscounted cash flows of IPR expected to result from its use exceeded the carrying amount as at December 31, 2009. These undiscounted future cash flows were revised from previous periods to reflect current prevailing economic conditions. We concluded that as the undiscounted cash flows expected to be received from the continuing use of IPR exceeded its carrying value a comparison of the carrying value of the asset to its fair value was not required.

We routinely carry out a validation of useful life of the asset. The remaining useful life of the asset is approximately 7 years and we continue to amortize the carrying cost based on a 10 year amortization schedule. We also have plans to use the IPR for cross vertical and horizontal services. As of and during the year ended December 31, 2010, there were no significant adverse events or changes in circumstance that indicated that the carrying amount of the IPR is not recoverable as we achieved the projected cashflow for 2010. Accordingly, we have not performed a detailed evaluation of recoverability of this IPR during 2010.

In June 2010, we acquired from one of our customers, existing software Intellectual Property Rights ( IPR ) which are used for education sector management in UK and Ireland. The cost of acquisition of the IPR and marketing rights amounted to \$12.0 million which has been capitalized as an intangible asset and is being amortized over a period of seven years. We also intend to increase the revenue from the IPR software by the sale of licenses in certain geographies along with significant use in horizontals other than the education learning domain.

**Expansion Plans**

We operate through our facilities located in various parts of India. In the recent past we have acquired facilities to support our growth. In keeping with our plans for expansion, we have constructed new facilities in India, which includes three knowledge parks in Chennai, Navi Mumbai and Noida. These knowledge parks have state-of-the-art infrastructure with extensive workspace and training facilities and a modular design for ease of segregation of dedicated projects with the ability to provide scale and service to clients from one location.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

Phase I of the Navi Mumbai facility, with a capacity of 4,300 seats, is complete and occupied. Phase I of the Chennai facility, with a capacity of 1,200 seats, is complete and partially occupied. Construction of the Noida SEZ facility with capacity to accommodate 3,300 seats is completed and is partially occupied. The Navi Mumbai, Chennai and Noida facilities are expected to accommodate up to 14,000, 10,000 and 3,300 engineers, respectively, when fully completed.

In continuation of our policy to have our own campus operations, we have acquired land in Pune, Hyderabad and Kolkata in addition to our campuses in Mumbai, Chennai and Noida. These facilities when fully built, are expected to have a seating capacity for approximately 25,000 professionals.

See Item 4.D. Information on the Company Property, plant and equipment.

### Buyback of Shares

In 2008, our Board of Directors approved a proposal to repurchase fully paid equity shares to the extent of 10% of the paid up capital and free reserves, at a maximum price of Rs. 325 per equity share, for an aggregate amount of Rs. 2,370 million (\$53 million) in accordance with the provisions of Sections 77A, 77AA, 77B and other applicable provisions of the Indian Companies Act, 1956 and the provisions of Securities and Exchange Board of India (Buy-back of Securities) Regulations, 1998 (Buy Back Regulations), for which necessary public announcements were made in April 2, 2008.

During 2008 we repurchased a total of 10,957,082 equity shares through the Bombay Stock Exchange Limited and the National Stock Exchange Limited for an aggregate consideration of Rs. 2,370 million (\$ 53 million) which was 100% of the amount authorized for such buy back. Subsequently, we extinguished the equity shares so bought back by us as per the requirements of Section 77A of the Indian Companies Act, 1956.

Our retained earnings include profits aggregating Rs. 21.9 million (\$ 0.4 million) set aside as Capital Redemption Reserve as required by the Indian Companies Act, 1956 pursuant to the repurchase which can be utilized by us only for the purpose of issuing fully paid bonus shares.

### Results of Operations

The following table sets forth certain financial information as a percentage of revenues, calculated from our consolidated financial statements:

	Year ended December 31,		
	2008	2009	2010
Revenues	100.0%	100.0%	100.0%
Cost of revenues	68.3%	64.2%	65.0%
<b>Gross profit</b>	<b>31.7%</b>	<b>35.8%</b>	<b>35.0%</b>
Selling, general and administrative expenses	18.5%	18.9%	19.2%
Foreign exchange (gain)/loss, net	2.5%	1.5%	(3.1)%
<b>Operating income</b>	<b>10.7%</b>	<b>15.4%</b>	<b>18.9%</b>
Interest and dividend income	1.8%	1.7%	1.9%

Edgar Filing: Patni Computer Systems LTD - Form 20-F

Interest expense	(0.2)%	(0.2)%	(0.2)%
Interest expense reversed	0.9%	0.4%	0.2%
Gain on sale of investments, net	1.3%	1.4%	0.8%
Equity in losses of affiliate			(0.02)%
Other income (expense), net	0.3%	0.3%	0.1%
<b>Income before income taxes</b>	<b>14.8%</b>	<b>19.0%</b>	<b>21.7%</b>
Income taxes	0.7%	0.7%	2.8%
<b>Net income</b>	<b>14.1%</b>	<b>18.3%</b>	<b>18.9%</b>

Table of Contents

**Year Ended December 31, 2010 Compared to Year Ended December 31, 2009**

***Revenues***

Our revenues were \$ 701.7 million in 2010, representing an increase of 7.0% from revenues of \$ 655.9 million in 2009 which was mainly on account of overall volume increase of 6.8 % and foreign exchange impact of 0.2%. Revenues from existing customers contributed \$664.1 million and new customers contributed \$ 37.6 million to our revenues. This represented an increase of 7.8% in revenues from existing customers and decrease of 5.3% in revenues from new customers compared to 2009. The increase in revenues from our existing operations was attributable to an increase of 9.9% in the total billed person-months from work performed at both our offshore and onsite locations. Onsite work measured in billed-person months increased by 7.1 % in 2010 as compared to 2009, while offshore work increased 11.0% over the same period. Our active client base is at 297 as of December 31, 2010 as compared to 272 as of December 31, 2009. In addition, the total number of clients that individually accounted for over \$1.0 million in annual revenues increased to 99 as of December 31, 2010 as compared to 92 as of December 31, 2009.

. T&M projects accounted for 55.4% of our revenues in 2010 as compared to 59.4% in 2009 and 72.0% of our new business was billed on a T&M basis in 2010. During 2010, in dollar terms our revenues from T&M projects decreased by 0.2% over revenues in 2009, while revenues from fixed price contracts increased by 17.5% over the same period

Our client concentration, as measured by the proportion of revenue generated from our top ten clients, decreased to 48.8% in 2010 from 49.7% in 2009. Our largest client contributed 10.9% and 11.9% of our revenues in 2010 and 2009 respectively.

During 2010, clients in the insurance, manufacturing, retail and distribution, financial services and product engineering services industries continued to contribute a large proportion of our revenues. Revenues from clients in these industries contributed 30.3%, 30.3%, 11.6% and 16.6% to overall revenues respectively in 2010 as compared to 29.7%, 29.0%, 12.8% and 15.0% respectively in 2009. Our clients in the communications, media and utilities industry contributed to 11.2% of our revenues in 2010 as compared to 13.5% in 2009.

During 2010, we continued to derive a significant proportion of our revenues from clients located in the United States. In 2010 and 2009, we derived 79.8% and 78.9% of our revenues from clients located in the United States.

***Cost of revenues***

Our cost of revenues was \$ 455.9 million in 2010, representing an increase of 8.2% from \$ 421.3 million in 2009. Cost of revenues represented 65.0% and 64.2% of our revenues in 2010 and 2009. Out of the increase of \$ 34.6 million in cost of revenues, \$24.7 million was attributable to salary expenses and the remaining increase was mainly due to employee and other costs pertaining to the acquisition of CHCS in 2010. The salary increase is mainly on account of net increase in headcount offshore and negative impact of rupee appreciation on offshore salaries. The average exchange rate for 2010 was Rs.45.65 per U.S. dollar as compared to average exchange rate of Rs.48.33 per U.S. dollar in 2009 resulting in a rupee appreciation of 5.6% which had a negative impact in increasing the cost of revenues in 2010 as compared to 2009 as 38.8% of our

cost of revenues is incurred in Indian rupees.

***Gross profit***

Our gross profit for 2010 was \$245.8 million, representing an increase of 4.8% from \$234.6 million in 2009. Gross profit as a percentage of our revenues decreased to 35.0% in 2010 from 35.8% in 2009. The increase in gross profit is attributed to various factors including a revenue increase, operating efficiencies in terms of various measures such as utilization and a reduction in operating and discretionary expenses. The gross profit as a percentage of revenue reduced from 35.8% in 2009 to 35.0% in 2010 mainly on account of rupee appreciation of 5.6% which had a negative impact on gross profit in 2010 as compared to rupee depreciation of 11.4% in 2009 which had a positive impact on gross profit.

Table of Contents

***Selling, general and administrative expenses***

During 2010, our selling, general and administrative expenses were \$134.7 million, representing an increase of 7.8% from \$122.0 million in 2009 and our selling, general and administrative expenses as a percentage of our revenues increased to 19.2% in 2010 from 18.9% in 2009.

During 2010, our sales and marketing expenses were \$ 61.7 million, representing an increase of 14.7% from \$53.8 million in 2009. Personnel costs increased in 2010 by \$ 3.9 million due to the addition to sales and marketing personnel mainly in U.S. Our other selling and marketing costs mainly comprise of foreign travel and advertising expenses which increased by \$ 2.9 million.

Our general and administrative expenses were \$73.0 million in 2010, representing a increase of 3.4% from \$70.5 million in 2009. Personnel costs increased in 2010 by \$2.6 million due to increase in employee stock compensation expense. Other general and administrative charges mainly comprising of professional fees increased by \$ 2.2 million due to legal fees on account of acquisition of CHCS and also due to professional fees incurred in connection with human resource initiatives.

***Foreign exchange gain/loss***

In 2010, we had a foreign exchange gain of \$ 22.0 million as against a loss of \$ 9.7 million in 2009. The year-end exchange rate in rupees per U.S dollar for 2010 was Rs. 44.8 as compared to Rs.46.4 in 2009 resulting in a 3.4% appreciation during the year end in percentage terms. The average realization rate for rupee per US dollar for 2010 was Rs.48.1. as compared to Rs.46.2 for 2009. Revaluation of foreign exchange exposures mainly mark-to-market of foreign exchange contracts and revaluation of debtors result in a net foreign exchange gain for the year.

***Operating income***

As a percentage of revenues, operating income increased to 18.9% in 2010 from 15.4%% in 2009. Our operating income was \$ 133.0 million in 2010, representing an increase of 32.2% from \$ 100.6 million in 2009 which is mainly due to foreign exchange gain of \$22.0 million in 2010 as compared to a foreign exchange loss of \$9.7 million in 2009, increase in revenues, other operating efficiency measures such as utilization, reduction in operating and discretionary expenses.. In 2010, as per our practice, we have finalized the incentive payable to our employees for fiscal year December 31, 2009 based on completion of employee appraisal including final determination of key operating parameters applicable to our employee and business and accordingly we have reversed incentive accrual amounting to \$10.7 million as compared to \$5.0 million in 2009 for the fiscal year December 31, 2008. The exchange rate between the rupee and dollar has fluctuated substantially in recent years and may continue to do so in future. We are unable to predict the impact that future fluctuations may have on our operating margins.

***Other income / (expense)***

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

Other income / (expense), reflects interest and dividend income, interest expense, interest expense reversed, net gain on sale of investments and other income or expense, net. In 2010, our gain on sale of investments was \$5.6 million as compared to \$9.5 million in 2009. In 2010, our interest and dividend income were \$13.4 million as compared to \$11.2 million in 2009. In 2010 we had an interest expense reversal of \$1.1 million on account of expiry of statute of limitation for year ending March 2007 with regard to US Branch tax positions and in 2009 we had an interest reversal of \$2.8 million as a result of the completion of assessment by the IRS for years 2005 and 2006 with regard to Patni Americas Inc. amounting to \$1.6 million and \$1.2 million on account of expiry of the statute of limitation for year ending March 2006 with regard to US branch tax position. Our other income (expense), net was \$0.6 million in 2010, as compared to \$ 1.9 million in 2009 resulting in a decrease of \$1.3 million.

### *Income taxes*

We have made a tax provision of \$19.3 million for 2010 which included a reversal of \$ 6.3 million on account of expiry of the statute of limitations with regard to year ended March 2007 of our US branch tax positions. In 2009 we made a tax provision of \$ 4.7 million for income taxes in the year 2009 which included, a reversal of \$8.3 million on account of completion of IRS assessment with regard to Patni Americas Inc. for years 2005 and 2006, reversal of \$7.0 million on account of expiry of statute of limitation with regard to year ended March 2006 of our US branch tax positions and also included a reversal of \$2.5 million on account of favourable order received by us from Indian Income tax Appellate Tribunal allowing a set off losses under Section 10A of the Indian Income Tax Act against the taxable business income . (See Item 5.A Operating Results -Taxes ). Our normalized effective tax rate (excluding tax reversals) was 16.9% in 2010 as compared to 18.8% for the year 2009.

### *Net income*

Our net income was \$133.2 million in 2010, representing an increase of 11.2% from \$ 119.8 million in 2009. As a percentage of our revenues, net income increased to 18.9% in 2010 from 18.3% in 2009. The increase in the net income is mainly due to the reasons explained above.



Table of Contents

**Year Ended December 31, 2009 Compared to Year Ended December 31, 2008**

***Revenues***

Our revenues were \$ 655.9 million in 2009, representing a decrease of 8.8% from revenues of \$ 718.9 million in 2008 which was mainly on account of an overall volume decline of 4.6 %, a pricing decline of 2.2 % and a foreign exchange impact of 1.8%. Revenues from existing customers contributed \$ 616.3 million and new customers contributed \$ 39.6 million to our revenues. This represented a decrease of 8.1% in revenues from existing customers and decrease of 17.6% in revenues from new customers compared to 2008. The reduction in revenues from our existing operations was attributable to a decrease of 1.6 % in the total billed person-months from work performed at both our offshore and onsite locations. Onsite work measured in billed-person months decreased by 6.6 % in 2009 compared to 2008, while offshore work increased 0.4% over the same period. Our active client base is at 272 as of December 31, 2009 as compared to 331 as of December 31, 2008. In addition, the total number of clients that individually accounted for over \$ 1.0 million in annual revenues continued to be 92 as of December 31, 2009 and as of December 31, 2008.

During 2009, our revenues from T&M projects decreased by 7.3% over revenues in 2008, while revenues from fixed price contracts increased by 12.8% over the same period. T&M projects accounted for 59.4% of our revenues in 2009, compared to 64.0% in 2008 and 62.2% of our new business was billed on a T&M basis.

Our client concentration, as measured by the proportion of revenue generated from our top ten clients, increased to 49.7% in 2009 from 45.6% in 2008. Our largest client contributed 11.9% of our revenues in 2009, compared to 10.7% in 2008.

During 2009, clients in the insurance, manufacturing, retail and distribution, financial services and product engineering services industries continued to contribute a large proportion of our revenues. Revenues from clients in these industries contributed 29.7%, 29.0%, 12.8% and 15% to overall revenues respectively in 2009 as compared to 24.7%, 28.9%, 12.8% and 15.7% respectively in 2008. Our clients in the communications, media and utilities industry contributed to 13.5% of our revenues in 2009 as compared to 17.9% in 2008.

During 2009, we continued to derive a significant proportion of our revenues from clients located in the United States. In 2009 and 2008, we derived 78.9% and 75.9% of our revenues from clients located in the United States.

***Cost of revenues***

Our cost of revenues was \$ 421.3 million in 2009, representing a decrease of 14.2% from \$ 491.3 million in 2008. Cost of revenues represented 64.2% and 68.3% of our revenues in 2009 and 2008. Out of the net decrease of \$ 69.9 million in cost of revenues, \$ 32.5 million was attributable to salary expenses and the remaining decrease was mainly due to a \$19.9 million decrease in subcontractor costs. The salary decrease is mainly on account of reduction in headcount onsite and positive impact of rupee depreciation on offshore salaries. The average exchange rate for 2008 was Rs.43.39 as compared to average exchange rate of Rs.48.33 in 2009 resulting in a rupee depreciation of 11.4% which had a positive impact in reducing the cost of revenues in 2009 as compared to 2008 as 40.9% of our cost of revenues is incurred in Indian rupees.

***Gross profit***

Our gross profit for 2009 was \$ 234.6 million, representing an increase of 3.1% from \$ 227.6 million in 2008. Gross profit as a percentage of our revenues increased to 35.8% in 2009 from 31.7% in 2008. The increase in gross profit is attributed to various factors including currency exchange rates, operating efficiencies in terms of various measures such as utilization, reduction and rationalization in operating and discretionary expenses. These measures led to the increase in gross profit by 3.1% over 2008 despite the decline in revenues over 2008 by 8.8%.

***Selling, general and administrative expenses***

During 2009, our selling, general and administrative expenses were \$ 122.0 million, representing a decrease of 6.9% from \$ 131.1 million in 2008 and our selling, general and administrative expenses as a percentage of our revenues increased to 18.9% in 2009 from 18.3% in 2008.

During 2009, our sales and marketing expenses were \$ 53.8 million, representing an increase of 2.5% from \$ 52.5 million in 2008. Personnel costs increased by \$ 2.5 million due to the addition to sales and marketing personnel mainly in Japan and Singapore region to strengthen our Asia Pacific footprint. Other selling and marketing costs mainly comprising of foreign travel and conference expenses decreased by \$ 1.8 million.

Our general and administrative expenses were \$ 68.2 million in 2009, representing a decrease of 13.1% from \$ 78.5 million in 2008. Personnel costs decreased in 2009 by \$ 3.6 million due to the reduction in headcount of general and administrative personnel. Other general and administrative charges mainly comprising of professional fees, recruitment cost and establishment cost decreased by \$ 6.9 million as part of operating efficiency measures as such as reduction and rationalization in operating and discretionary expenses.

Table of Contents

***Foreign exchange gain/loss***

In 2009, we had a foreign exchange loss of \$ 9.7 million as compared to a loss of \$ 18.4 million in 2008. The year-end exchange rate in rupees per U.S dollar for 2009 was Rs .46.4 as compared to Rs.48.58 in 2008 resulting in a 4.5% appreciation during the year - end in percentage terms. The average realization rate for rupee per US dollar for 2009 was Rs.46.2 as against Rs.42.3 for 2008. Also in 2008 we had a revaluation loss on tax liability amounting to \$4.0 million as compared to gain of \$1.8 million in 2009. This was mainly on account rupee appreciation in 2009 from Rs.48.58 as of December 31, 2008 to Rs.46.40 as of December 31,2009 as compared to rupee depreciation from Rs.39.41 as of December 31, 2007 to Rs.48.58 as of December 31, 2008. Our dollar-denominated receivables continued to be hedged. Revaluation of foreign exchange exposures, mainly mark-to-market of foreign exchange contracts, and revaluation of debtors result in a net foreign exchange loss.

***Operating income***

As a percentage of revenues, operating income increased to 15.4% in 2009 from 10.7% in 2008. Our operating income was \$ 100.6 million in 2009, representing an increase of 31.4% from \$ 76.6 million in 2008 which is mainly due to a lesser foreign exchange loss of \$ 9.7 million in 2009 as compared to a foreign exchange loss of \$ 18.4 million in 2008 and other operating efficiency measures such as utilization, reduction and rationalization in operating and discretionary expenses. The exchange rate between the rupee and dollar has fluctuated substantially in recent years and may continue to do so in future. We are unable to predict the impact that future fluctuations may have on our operating margins.

***Other income (expense)***

Other income (expense), reflects interest and dividend income, interest expense, interest expense reversed, net gain on sale of investments and other income or expense, net. In 2009, our gain on sale of investments was \$ 9.5 million as compared to \$9.7 million in 2008. In 2009, our interest and dividend income were \$ 11.2 million as compared to \$ 13.0 million in 2008. In 2009 we had an interest expense reversal of \$2.8 million as a result of the completion of assessment by the IRS for years 2005 and 2006 with regard to Patni Americas Inc. amounting to \$1.6 million and \$1.2 million on account of expiry of statute of limitation for year ending March 2006 with regard to US Branch and in 2008 we had an interest expense reversal of \$6.5 million as a result of the completion of assessment by the IRS for years 2003 and 2004 with regard to Patni Americas Inc. and March 2003, 2004 and 2005 with regard to US Branch. Our other income (expense), net was \$ 1.9 million in 2009, as compared to \$ 2.6 million in 2008 resulting in a decrease of \$ 0.7 million.

***Income taxes***

We made a tax provision of \$ 4.7 million for income taxes in the year 2009 which included, a reversal of \$8.3 million on account of completion of an IRS assessment with regard to Patni Americas Inc. for years 2005 and 2006, reversal of \$7.0 million on account of the expiry of statute of limitation with regard to year ended March 2006 of our US branch and also included a reversal of \$2.5 million on account of favourable order received by us from Indian Income tax Appellate Tribunal allowing a set off of section 10A losses against the taxable business income . (See Item 5.A Operating Results -Taxes ). In 2008 we made a provision of \$5.2 million which included a reversal of \$8.4 million on account of completion of assessment by IRS for yearend 2003, 2004 for Patni Americas Inc and for year ended March 2003, 2004 and 2005 of our US branch. Hence our reported tax rate for the year 2009 was 3.8% as against 4.9% for the year 2008. Our normalized effective tax rate (excluding tax reversals) was 18.8% as compared to 14.0%. for the year 2008, which was mainly due to the expiry of income tax benefit for some of our

STPI units in India.

*Net income*

Our net income was \$119.8 million in 2009, representing an increase of 18.1% from \$ 101.4 million in 2008. As a percentage of our revenues, net income increased to 18.3% in 2009 from 14.1% in 2008. The increase in the net income is mainly due to the reasons explained above.

**5.B. Liquidity and Capital Resources**

Our operations and our growth have been financed by cash generated from operations and from the proceeds of sales of equity shares.

We invest in units of mutual funds either in open ended schemes or in fixed maturity plans . While the investments in open ended mutual fund units can be sold any time without exit fees, the investments in units of fixed maturity plan can be sold subject to an exit fee of approximately 1%- to 2%. We have categorized our investments in units of mutual fund schemes as liquid mutual fund units and fixed maturity plans classified as available for sale investments in our consolidated financial statements.

As of December 31, 2010, we had \$78.7 million in cash and cash equivalents, \$ 68.7 million invested in units of liquid mutual funds, \$ 157.0 million invested in units of mutual fund (fixed maturity plans) and \$ 54.8 million invested in other investments. As of December 31, 2009, we had \$ 63.4 million in cash and cash equivalents, \$ 357.2 million invested in units of liquid mutual funds, \$ 8.0 million invested in units of mutual fund (fixed maturity plans) and \$ 10.7 million invested in other investments. As of December 31, 2010 and 2009, we have not incurred

Table of Contents

any exit fees on investments in mutual fund units of fixed maturity plans. The investments portfolio mainly consists of investment in various debt mutual funds and certificate of deposits with banks in India.

Our working capital (comprising current assets excluding cash and cash equivalents and investments less current liabilities) as at December 31, 2010 and at December 31, 2009 was \$ 98.8 million and \$ 53.4 million, respectively. We believe that our working capital is sufficient to meet our present business and operational requirements. We had no outstanding bank borrowings or long-term debt as of such date other than capital lease obligations. Net cash provided by operating activities was \$136.6 million, \$137.0 million and \$ 149.3 million in the years ended December 31, 2010, 2009 and 2008, respectively. The adjustments for the year ended December 31, 2010, to reconcile the \$ 133.2 million net income to net cash provided by operating activities, consisted primarily of depreciation and amortization of intangible expense of \$ 28.4 million, deferred tax credit of \$ 14.9 million, gain from sale of investments of \$ 5.6 million and compensation cost related to employee stock option of \$8.6 million. The adjustments for the year ended December 31, 2009, to reconcile the \$ 119.8 million net income to net cash provided by operating activities, consisted primarily of depreciation and amortization of intangible expense of \$ 26.2 million and deferred tax credit of \$ 8.9 million and gain from sale of investments of \$ 9.5 million. The adjustments for the year ended December 31, 2008, to reconcile the \$ 101.0 million net income to net cash provided by operating activities, consisted primarily of depreciation and amortization of intangible expense of \$ 27.7 million and deferred tax credit of \$ 9.2 million and gain from sale of investments of \$ 9.7 million. The increase in depreciation was due to an increase in investment in property, plant and equipment to develop and expand our existing as well as new facilities and increase in amortization expense is due to the new IPR purchased during the year. The net asset base was \$136.2 million, \$147.6 million and \$ 150.9 million in the years ended December 31, 2010, 2009 and 2008, respectively. Provision for bad debts was \$0.6 million, \$ 2.3 million and \$ 1.6 million for the year ended December 31, 2010, 2009 and 2008, respectively.

Adjusted days of sales outstanding was 75 days as of December 31, 2010 as compared to 69 days for the year ended December 31, 2009 and 2008, respectively. Net accounts receivable and unbilled revenue increased by \$19.5 million in 2010 as against decrease of \$15.0 million and \$6.7 million for the year ended December 31, 2009 and December 31, 2008, respectively.

Current assets and other assets increased by \$8.5 million and \$4.6 million during the year ended December 31, 2010 and December 31, 2009, respectively and decreased by \$ 19.3 million for the year ended December 31, 2008. Cash outflows for the year ended December 31, 2010 is mainly due to \$1.5 million on account of deposit with tax authorities and \$1.5 million due to derivative contracts. Cash outflows for the year ended December 31, 2009 were mainly on account of payment of \$ 5.3 million in respect of deposit with tax authorities, and \$ 2.3 million on account of derivative contracts. Cash inflows for the year ended December 31, 2008 were mainly on account of refund of \$ 6.8 million in respect of deposit with tax authorities, and \$ 13.2 million on account of settlement of derivative contracts..

Accounts payable and accrued expenses, net increased by \$1.9 million and \$8.5 million for the year ended December 31, 2010 and December 31, 2008 respectively and decreased by \$1.3 million for the year ended December 31, 2009. The net increase in 2010, is on account of decrease of \$0.3 million in trade accounts payable and increase of \$2.2 million in accrued expenses. The increase in accrued expenses of \$2.2 million is mainly on account of increase in \$2.3 million relating to sub-contractor cost, \$0.9 million relating to Data link charges, \$0.9 million relating to travel related expense which is offset to some extent by reduction in accruals pertaining to employee related expense of \$1.9 million.

Our billings in excess of costs and estimated earnings on uncompleted contracts, which represent billings in excess of revenues that are recognized, increased by \$12.0 million and \$ 3.1 million in the year ended December 31, 2010 and December 31, 2008, respectively and decreased by \$0.5 million in the year ended December 31, 2009.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

Taxes paid were \$ 17.0 million, \$23.3 million and \$31.5 million as against a tax provision of \$ 14.4 million, \$13.6 million and \$34.2 million for the years ended December 31, 2008, 2009 and 2010, respectively.

Other current liabilities and other liabilities decreased by \$1.0 million and \$5.3 million during the year ended December 31, 2010 and 2009 respectively. The decrease in the year ended December 31, 2010 resulted from decrease in provision for volume discounts and warranty cost of \$2.2 million and increase in provision for pension of \$0.6 million. The decrease in the year ended December 31, 2009 resulted from decrease of \$ 6.3 million in derivative liabilities and accrual vacation by \$2.3 million, while increase in provision for volume discounts by \$4.9 million. Other current liabilities and other liabilities increased by \$ 4.8 million during the year ended December 31, 2008. The increase in the year ended December 31, 2008 resulted from increase of \$ 7.0 million in derivative liabilities, \$ 2.8 million increase in leave encashment provision, \$ 1.9 million increase in sales discounts, \$ 2.6 million increase in statutory liabilities for tax deducted at source on payroll and Value Added Tax (VAT) payments, \$ 1.4 million increase in provision for pension and reduction of \$ 11.2 million in other liabilities on account of reversal of payroll and related taxes, interest and penalty due to completion of assessment by the IRS for years 2003 and 2004.

Net cash provided by investing activities was \$ 86.6 million for the year ended December 31, 2010, as against Net cash used in investing activities of \$ 132.7 million for 2009 and \$ 35.5 million for 2008. Net cash used in the acquisition of property, plant and equipment for the years ended December 31, 2010, 2009 and 2008 was \$11.6 million, \$19.0 million and \$ 43.4 million, respectively on account of the purchases of new facilities and expansion of our existing facilities. Net sale of investment securities amounted to \$117.8 million and \$4.0 million for the year ended December 31, 2010 and December 31, 2008 respectively as against net purchase of investment securities of \$114.0 million for the year ended December 31, 2009. Net Cash used in investing

Table of Contents

activities for the year ended December 31, 2010 includes \$7.2 million for acquisition of CHCS. and \$12.4 million for acquisition of technology related intangibles from one of our customer.

Net cash used in financing activities was \$205.6 million, \$3.1 million and \$ 64.6 million for the years ended December 31, 2010, 2009 and 2008, respectively. We paid \$ 9.9 million as dividends, including dividend tax, on our equity shares in the year ended December 31, 2010. We also paid \$206.5 million as special interim dividend of Rs 63.0 per share (\$1.34 per share) in August 2010, including dividend tax, on our equity shares in the year ended December 31, 2010. We received proceeds of \$ 9.7 million from our employee stock option plan during the year ended December 31, 2010. We paid \$ 9.3 million as dividends, including dividend tax, on our equity shares in the year ended December 31, 2009. We received proceeds of \$ 5.5 million from our employee stock option plan during the year ended December 31, 2009. We spent \$ 53.1 million on purchase of common stock and paid \$ 11.4 million as dividends, including dividend tax, on our equity shares in the year ended December 31, 2008. We received proceeds of \$ 0.2 million from our employee stock option plan during the year ended December 31, 2008.

We anticipate capital expenditures of between approximately \$ 10 million to \$ 15 million in 2011, principally to finance the construction of our new knowledge park facilities in Pune, Phase II of Navi Mumbai, Chennai and other facilities and physical infrastructure in India. Estimated amounts remaining to be executed on such contracts (net of advances), aggregated approximately to \$ 54.5 million at December 31, 2010 to be spent over a three year period. See Item 4.D. Information on the Company Property, plant and equipment. We believe that existing cash and cash equivalents and funds generated from operations will be sufficient to meet these requirements. However, we may significantly alter our proposed capital expenditures plans and, accordingly, may require additional financing to meet our requirements. We believe that a sustained reduction in IT spending, a longer sales cycle or an economic downturn in any of the various industry segments in which we operate, or a combination of these events, could result in a decline in our revenues and adversely affect our liquidity and capital resources.

**Critical Accounting Policies**

We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on management's judgment, with financial reporting results relying on estimates about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. For these policies, future events may not develop as forecast, and estimates may require revision.

***Accounting Estimates***

We prepare financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the financial reporting period. We primarily make estimates related to contract costs expected to be incurred to complete development of software, allowances for doubtful accounts receivable, our future obligations under employee retirement and benefit plans including incentives, useful lives of property, plant and equipment and intangible assets, estimate of future cash flows used in assessing for impairment of assets, deferred tax assets and liabilities and provisions for contingencies and litigation.

We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments

about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. Changes in estimates are reflected in the financial statements in the period in which changes are made and, if material, their effects are disclosed in the notes to the consolidated financial statements.

***Revenue Recognition***

We recognize revenues by following specific and applicable accounting guidelines for measuring revenue. These guidelines require us to make certain judgments that affect recognized and unrecognized revenue. Judgments involve the method of recognizing revenue, costs and time required to complete projects for our clients etc.

We are in the software services business and, to a lesser extent, in business process outsourcing. Our revenues from software services are derived by providing the following services:

- custom application development;
- application maintenance and support;
- packaged software implementation;



Table of Contents

- infrastructure management services;
- product engineering;
- business process outsourcing; and
- quality assurance services.

*Software Services*

We derive our revenues primarily from software services. Revenue is recognized when there is persuasive evidence of a contractual arrangement with customers, the sales price is fixed or determinable and collectibility is reasonably assured. Our software services contracts are either on a fixed-price, fixed time frame or on a time and material basis. Currently a majority of revenues are derived on time and material contracts. Revenues earned from services performed on a time and material basis are recognized as the related services are performed. Our fixed-price contracts include application maintenance and support services, on which revenue is recognized ratably over the term of maintenance. Our other fixed-price contracts are recognized on a percentage of completion basis. The input method has been used because management considers this to be the best available measure of progress on these contracts as there is a direct relationship between input and productivity.

We review the estimated revenues and estimated costs on each project at the end of each reporting period. Any revisions to existing estimates are made when required by management having the relevant authority. As part of the review process, management regularly compares and analyzes the actual costs and the estimate of costs to complete the projects to the original estimated costs and the total contract price with revisions to estimates reflected in the period in which changes become known. As a policy, provisions for estimated losses on such engagements will be made during the period in which a loss becomes probable and can be reasonably estimated.

We charge direct and incremental contract origination and set up costs incurred in connection with application maintenance and support services to expense as incurred. We defer these costs only in situations where there is a contractual arrangement establishing a customer relationship for a specific period. The costs to be deferred are limited to the extent of future contractual revenues. Further, we defer and recognize revenue attributable to set up activities over the periods that the related fees are earned, as services performed during such periods do not result in separate earnings process.

We generally provide our clients with a one- to three-month warranty as post-sale support. Costs associated with such services are accrued based on management's estimates and historical data at the time related revenues are recorded. We use our past experience relating to actual warranty costs incurred on similar kinds of projects in order to estimate future warranty costs.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

We grant volume discounts to certain customers, which are computed based on a pre-determined percentage of the total revenues from those customers during a specified period, pursuant to the terms of the contract. These discounts are earned only after the customer has generated a specified cumulative level of revenues in the specified period. We report revenue net of discounts offered to the customers.

We estimate the total number of customers that will ultimately earn these discounts, based on which a portion of the revenue on the related transactions is allocated to the services that will be delivered in the future.

Historically, changes in estimates of warranty costs and volume discounts have not had a material impact on our financial statements.

We include reimbursement of out-of-pocket expenses received from customers as part of revenues.

We report taxes assessed by governmental authorities directly imposed on revenue producing transactions on a net basis.

### ***Business Process Outsourcing***

Revenues from business process outsourcing services are derived from both time-based and transaction-priced contracts. Revenue is recognized as the related services are performed, in accordance with the specific terms of the contracts with the customer.

### ***Business Combinations, Goodwill and Intangible Assets***

We account for business combinations using the acquisition method of accounting for all business combinations. Intangible assets acquired in a business combination are recognized and reported separately from goodwill. Accounting for contingent consideration based on earnings or other performance measures is a matter

Table of Contents

of judgment that depends on the relevant facts and circumstances. If the substance of the contingent consideration is to provide compensation for services, use of property, or profit sharing, we account for the additional consideration as an expense of the appropriate period. Otherwise, the additional consideration paid is recorded as an additional cost of the acquired business.

Goodwill represents the cost of the acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased. We generally seek the assistance of independent valuation experts in determining the fair value of the identifiable tangible and intangible net assets of the acquired business. We assign all the assets and liabilities of the acquired business, including goodwill, to reporting units.

We test goodwill for impairment at least on an annual basis. In this process, we rely on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. The fair value of a reporting unit is determined using the income approach. If the carrying value of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the implied fair value and carrying value of the goodwill of that reporting unit. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Goodwill of a reporting unit will be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

We amortize intangible assets over their respective individual estimated useful lives in proportion to the economic benefits consumed in each period or a straight line method as appropriate. Intangible assets comprise customer, technology, intellectual property rights and marketing related intangible assets and are being amortized over a period of 3-10 years. Our estimates of the useful lives of identified intangible assets are based on a number of factors including the effects of obsolescence, demand, competition, and other economic factors (such as the stability of the industry, and known technological advances), and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

We evaluate intangible assets for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets.

In evaluating goodwill and intangible assets for impairment, we may seek the assistance of independent valuation experts, perform internal valuation analyses and consider other information that is publicly available. The results of our evaluation may be dependent on a number of factors including estimates of future market growth and trends, forecasted revenue and costs, discount rates and other variables. While we use assumptions which we believe are fair and reasonable, future results may differ from the estimates arrived at using the assumptions.

We perform our annual impairment review of goodwill at December 31, and when a triggering event occurs between annual impairment tests. Based on the results of its annual impairment tests, we determined that no impairment of goodwill existed as the fair value of reporting unit comprising of goodwill substantially exceeds the carrying value as of December 31, 2010 and December 31, 2009.

*Income Taxes*

As part of our financial reporting process, we are required to estimate our liability for income taxes in each of the tax jurisdictions in which we operate. This process requires us to estimate our actual current tax exposure together with an assessment of temporary differences resulting from differing treatment of items, such as depreciation on property, plant and equipment, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our balance sheet.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in results of operations in the period that includes the enactment date. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of income.

Our deferred tax liabilities mainly arise from taxable basis differences in intangible assets, undistributed earnings of branch, property, plant and equipment, gain in available for sale securities and costs and estimated earnings in excess of billings on completed contracts. Our deferred tax assets comprise assets arising from our

Table of Contents

minimum alternate tax credit entitlement, accrued expenses, provisions for doubtful accounts receivable and long term capital losses. We assess the likelihood that our deferred tax assets will be recovered from future taxable income. This assessment takes into consideration tax planning strategies, including levels of historical taxable income and assumptions regarding the availability and character of future taxable income over the periods in which the deferred tax assets are deductible. We believe it is more likely than not that we will realize the benefits of those deductible differences as of December 31, 2010 in the future. The ultimate amount of deferred tax assets realized may be materially different from those recorded, as influenced by potential changes in income tax laws in the tax jurisdictions where we operate, or future changes in operating results.

To the extent we believe that realization of a deferred tax asset is not likely, we establish a valuation allowance or increase this allowance in an accounting period and include an expense within the tax provision in our statements of income. The net change in valuation allowance in 2010 was mainly on account of the creation of a valuation allowance against deferred tax assets recorded on business loss carry forwards for subsidiaries in the UK, Mexico, Singapore and Japan amounting to \$ 1.6 million, \$0.4 million, \$0.6 million, and \$0.2 million, respectively. We have also set up a valuation allowance on deferred tax assets of our subsidiary in India amounting to \$1.8 million primarily comprising MAT credit entitlement. Additionally, we have set up a valuation allowance on deferred tax assets recorded on long term capital loss arising on investment in available for sale securities amounting to \$2.1 million.

From January 1, 2007, we recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs

Tax exposures can involve complex issues and may require an extended period to resolve. Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the tax benefit on interest provision relating to uncertain tax positions.

***Stock-based compensation***

Effective January 1, 2006, we recognize compensation expense relating to share-based payments to be recognized in net income using a fair value measurement method. Under the fair value method, the estimated fair value of awards is charged to income on an accelerated basis over the requisite service period, which is generally the vesting period. We implemented this fair value model using the modified prospective method and, therefore, prior periods were not restated. Under the modified prospective method, the fair value accounting was applied to new awards granted after the time of adoption, as well as to the unvested portion of previously granted equity-based awards for which the requisite service had not been rendered as of January 1, 2006. We granted stock options under the Patni ESOP 2003 -Revised 2006.

The fair value of each option is estimated on the date of grant using the Black-Scholes model. We use the simplified method to estimate the expected term of the instruments in the option valuation model which is based on the vesting term and contractual term of the option as we do not have sufficient historical data on option exercise.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

Expected volatility during the expected term of the option is based on historical volatility, during a period equivalent to the expected term of the option, of the observed market prices of the company's publicly traded equity shares. Expected dividends during the expected term of the option are based on recent dividend activity. Risk-free interest rates are based on the government securities yield in effect at the time of the grant.

Prior to the adoption of fair value accounting, we were required to record benefits associated with the tax deductions in excess of recognized compensation cost as an operating cash flow. However ASC-718 requires that such benefits be recorded as a financing cash inflow.

Effective April 1, 2007, an amendment has been made to Income Tax Act subjecting specified securities allotted or transferred by an employer to its employees to Fringe Benefit Tax (FBT). The liability to pay FBT by the employer arises at the time of allotment of the securities, consequent to exercise of option by the employees and is calculated on the difference between the fair value of the underlying share on the date of vesting and the exercise price paid by the employee based on the corporate tax rate. The FBT arising from such allotment of specified option is collectible from employees, which is considered as akin to a reset in the terms of the ESOP Plan as it would reduce the ultimate benefit to the employee, by way of increase in exercise price and hence is recognized as additional paid-in-capital.

On August 18, 2009, a further amendment was made to the Indian Income Tax Act, with retroactive effect from April 1, 2009, abolishing the provisions of FBT. Thus, for any exercises of stock options by the employee on

Table of Contents

or after April 1, 2009, the shares issued, or allocated and transferred by the Company, are no longer subject to FBT.

Since the abolition of the provisions of FBT, such deemed increase to the stock option exercise price is no longer necessary. This change has been accounted for as a modification in the exercise price of the existing share-based compensation plans. Accordingly, the difference in the fair value of the unvested outstanding options immediately before the modification and after the modification will be recognized as incremental share-based compensation over the remaining vesting period. For the options vested and outstanding as on the date of modification, the incremental cost has been recognized immediately on the date of modification.

***Derivatives and Hedge Accounting***

We enter into forward foreign exchange contracts/option contracts (derivatives) to mitigate the risk of changes in foreign exchange rates on inter company and end customer accounts receivable and forecasted sales transactions denominated in foreign currencies. The strategy also includes entering into short term foreign forward foreign exchange contracts which are replaced with successive new contracts up to the period in which the forecasted transactions are expected to occur (roll over hedging). Upon completion of the formal documentation and testing for effectiveness, we designate the forward and option contracts which meet the hedging criteria, as cash flows hedges. Changes in the derivative fair values that are designated, effective and qualify as cash flow hedges, are deferred and recorded as a component of accumulated other comprehensive income until the hedged transactions occur and are then recognized in the consolidated statements of income. Changes in fair value for derivatives not designated as hedging instruments and ineffective portion of the hedging instruments are recognized in consolidated statements of income in the current period.

In respect of derivatives designated as hedges, we formally document all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. We also formally assesses, both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge, or if a derivative ceases to be a highly effective hedge, we will, prospectively, discontinue hedge accounting with respect to that derivative. The derivatives, which do not qualify for hedge accounting, are accordingly, recognized at fair value with gains or losses included in foreign exchange (gain)/loss in the consolidated statements of income.

Hedge ineffectiveness could result from forecasted transactions not happening in the same amounts or in the same periods as forecasted or changes in the counterparty credit rating. Further, change in the basis of designating forward contracts as hedges of forecasted transactions could alter the proportion of forward contracts which are ineffective as hedges. Hedge ineffectiveness increases volatility of the consolidated statements of income since the changes in fair value of an ineffective portion of forward contracts is immediately recognized in the consolidated statements of income.

During the year ended December 31, 2010, there were no gains or losses on derivative transactions or portions thereof that were either ineffective as hedges, or associated with an underlying exposure that did not occur.

***Commitments and Contingencies***

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

***Recently Adopted and Issued Accounting Pronouncements under U.S.GAAP***

Please refer note 2.40 to 2.49 to our consolidated financial statements for the full description of the recent accounting pronouncements, including the respective dates of adoption and the effects on our results of operations and our financial condition.

**5.C. Research and development, patents and licenses, etc.**

Research and development expenditures for the years ended December 31, 2008, 2009 and 2010 were \$1.7 million, \$1.2 million and \$1.0 million, respectively. For a description of our research and development initiatives, see Item 4.B. Information on the Company Business Overview - Innovation.

**5.D. Trend information**

Other than as described in Item 3.D. Key information Risk Factors , Item 4. Information on the Company and Item 5 Operating and Financial Review and Prospects and elsewhere in this Annual Report, to our knowledge there are no known trends or uncertainties that have or had or are expected to have a material adverse impact on our revenues or income from continuing operations or profitability or liquidity or capital



Table of Contents

resources, or that could cause reported financial information not necessarily indicative of future operating results or financial condition.

**5.E. Off-balance sheet arrangements**

We currently do not engage in any off- balance sheet arrangements.

**5.F. Tabular disclosure of contractual obligations**

The following table sets forth our contractual obligations and commercial commitments to make future payments as of December 31, 2010. The following table excludes our accounts payable, accrued operating expenses and other current liabilities which are payable in the normal course of operations.

	Total	Payments due as of December 31, 2010			More than 5 years
		Within 1 year	1-3 years (in millions)	3-5 years	
Capital (Finance) Leases	\$ 0.2	\$ 0.1	\$ 0.1	\$ 0.0	
Operating Leases	\$ 14.3	\$ 4.3	\$ 8.0	\$ 1.9	\$ 0.0
Capital Commitment	\$ 54.5	\$ 9.6	\$ 44.9		
Other liabilities (1)	\$ 6.5		\$ 6.5		
<b>Total Contractual Obligations</b>	<b>\$ 75.5</b>	<b>\$ 14.0</b>	<b>\$ 59.5</b>	<b>\$ 1.9</b>	<b>\$ 0.0</b>

(1) Liabilities in the balance sheet include \$ 13.6 million in respect of employee benefit obligation and \$28.1 million towards uncertain tax position. For these amounts the extent of the amount and timing of payment/settlement is not reliably estimatable or determinable at present and accordingly have not been disclosed above.

**5.G. Safe Harbor**

This Annual Report contains forward-looking statements. See the section entitled Special Note regarding Forward Looking Statements.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****6.A. Directors and senior management**

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

The following table sets forth details regarding our Board of Directors and executive officers:

Name	Age	Position
Mr. Narendra K. Patni(1)(2)(3)(9)	68	Director (Chairman)
Mr. Jeya Kumar (11)	56	Director (Chief Executive Officer)
Mr. Louis T. van den Boog (8)	57	Director
Mr. Gajendra K. Patni(1)(4)	69	Director
Mr. Ashok K. Patni(1)(5)(9)	59	Director
Mr. William O. Grabe(6)(7)	72	Director
Mr. Pradip Baijal (8) (9)(10)	67	Director
Dr. Michael A. Cusumano(9)(10)	56	Director
Mr. Arun Duggal(12)	64	Director
Mr. Pradip Shah(12)	58	Director
Mr. Ramesh Venkateswaran(9)(10)	58	Director
Mr. Vimal Bhandari (12)(13)	52	Director
Mr. Abhay Havaladar (7)	49	Alternate Director
Mr. Phaneesh Murthy (14)	47	Director
Mr. Shashank Singh (15)	34	Director
Mr. Surjeet Singh	42	Chief Financial Officer
Mr. Ajay Chamania	48	Executive Vice-President and Global Head of the Product Engineering Services
Mr. Sunil Chitale	47	Executive Vice President and Chief Marketing & Strategy Officer
Dr. Anil Gupta (16)	52	Executive Vice President - Global Head Business Support
Mr. Satish M. Joshi	55	Executive Vice President - Global Head Technology & Innovation
Mr. Sanjiv Kapur	51	Senior Vice President - Global Head - BPO & CIS
Mr. Derek Kemp (17)	50	Executive Vice President - President EMEA
Mr. Vijay P. Khare	53	Executive Vice President and Global Head of Industry Verticals
Mr. Deepak Khosla	45	Senior Vice President (President SAARC)
Mr. Naresh Lakhanpal	46	Executive Vice President (President Americas)
Mr. V Mathivanan	55	Executive Vice President (President APAC)
Mr. Steve Correa (18)	46	Executive Vice-President and Chief Human Resources Officer
Mr. Niket Ghate (19)	42	Executive Vice-President & General Counsel
Mr. Manish Mehta (20)	54	Executive Vice-President and Chief Delivery Officer (Application Services)
Mr. Rajiv Ranjan (21)	52	Executive Vice-President and Global Head Business Operations

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

### Table of Contents

Mr. Apoorva Singh (22)	41	Senior Vice-President and Global Head of Infrastructure Management Services (IMS)
Mr. Vijay Mehra (23)	43	Executive Vice President -Global Head Industry Verticals
Mr. Rajesh Padmanabhan (24)	48	Executive Vice President and Global Head of Human Resources

---

(1) Mr. Narendra K. Patni, Mr. Gajendra K. Patni and Mr. Ashok K. Patni are brothers.

(2) Mr. Narendra K. Patni ceased to be our Chief Executive Officer with effect from February 20, 2009 and continues to be the Chairman of the Board/Company. He is also the Chairman of the Nominating and Corporate Governance committee.

(3) Mr. Narendra K. Patni is the nominee of the NKP Group.

(4) Mr. Gajendra K. Patni was the nominee of the GKP Group and resigned as a Director with effect from February 8, 2011.

(5) Mr. Ashok K. Patni is the nominee of the AKP Group.

(6) Mr. William Grabe was the nominee for General Atlantic and resigned as a Director with effect from February 8, 2011..

(7) Our Articles of Association provide that the board can appoint an alternate director pursuant to the provisions of the Indian Companies Act. Mr. Abhay Havaladar is the alternate director to Mr. William O. Grabe. However, he ceased to be an Alternate Director with effect from February 8, 2011.

(8) Member of the Shareholder /Investor Grievances committee.

(9) Member of the Nominating and Corporate Governance committee.

(10) Member of the Compensation and Remuneration committee.

(11) Permanent invitee of the Compensation and Remuneration committee

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

(12) Member of the Audit committee.

(13) Mr. Vimal Bhandari was appointed as Director of the Company with effect from January 15, 2010.

(14) Mr. Phaneesh Murthy was appointed as Director of the Company with effect from February 8, 2011.

(15) Mr. Shashank Singh was appointed as Director of the Company with effect from February 8, 2011.

(16) Dr. Anil Gupta was appointed as Executive Vice President - Global Head Business Operations with effect from January 18, 2010.

(17) Mr Derek Kemp was appointed as Executive Vice President President EMEA with effect from January 7, 2010.

(18) Mr. Steve Correa was appointed as Executive Vice-President and Chief Human Resources Officer with effect from September 1, 2010.

(19) Mr. Niket Ghate was appointed as Executive Vice-President & General Counsel with effect from March 15, 2010.

(20) Mr. Manish Mehta was appointed as Executive Vice-President and Chief Delivery Officer (Application Services) with effect from July 14, 2010.

(21) Mr. Rajiv Ranjan was appointed as Executive Vice-President and Global Head Business Operations with effect from September 20, 2010.

(22) Mr. Apoorva Singh was appointed as Senior Vice-President and Global Head of Infrastructure Management Services (IMS) with effect from June 28, 2010.

(23) Mr. Vijay Mehra has resigned as Executive Vice-President Global Head Industry Verticals with effect from January 20, 2010.

(24) Mr. Rajesh Padmanabhan has resigned as Executive Vice-President & Global Head of Human Resources with effect from July 9, 2010.

### **Board of Directors**

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

**Mr. Narendra K. Patni**, Chairman and is one of the founders of our company. Mr. Patni has a Master's degree in Electrical Engineering from the Massachusetts Institute of Technology, or MIT, and a Master's degree in Management from the Sloan School of Management at MIT. He also has a Bachelor's degree in Electrical Engineering from IIT, Roorkee. As an entrepreneur, he has played an integral role in the development of the Indian IT industry through his various ventures. Mr. Patni was instrumental in initiating the offshore outsourcing business model for the software industry. Prior to founding his first company, Data Conversion Inc. (now our U.S. subsidiary Patni Americas, Inc.) in 1972, he was President and Director of the Forrester Consulting Group and was previously with the U.S. Trust Company of New York and was a consultant to Arthur D. Little, Inc.

Mr. Patni ceased to be Chief Executive Officer of the Company with effect from February 20, 2009 and continues to be the Chairman of the Board/Company. Mr. Patni as a nominee of the NKP Group, is not required to retire by rotation from the Board.

Table of Contents

**Mr. Jeya Kumar**, is our Chief Executive Officer with effect from February 20, 2009. Mr. Kumar was also appointed as a Director of the Company, not liable to retire by rotation with effect from June 25, 2009. He has a Masters of Business degree from Curtin University, Australia; Bachelors of Business degree from the Royal Melbourne Institute of Technology, Australia; and postgraduate diplomas in Computer Science, Management Studies and Marketing Management. He has also attended the Advanced Management Program at Oxford University. His responsibilities mainly include driving the company's global operations; and defining and executing the company's long-term strategy focused on growth, profitability, and customer & operational excellence throughout Patni's value chain. Mr. Kumar was the CEO of MphasiS Limited and has more than 25 years of global experience spanning several geographies. Prior to MphasiS, he was Senior Vice-President of Sun Microsystems and a member of Sun's Executive Management Group (EMG). Notably, he was the first Asia-Pacific employee in the company's history to become a member of Sun's EMG. At Sun, as head of a \$ 5 billion-a-year Services business, Mr. Kumar was responsible for the business unit's financial performance, strategy, marketing, portfolio management, in-market management, product engineering, technology development, M&A and channels in more than 120 countries. He has also held various management and executive positions with global firms including Apple Computers Inc. and National Semi-Conductor Corporation. During the course of his extensive career, he has undertaken assignments in Singapore, Japan, Australia, United States, Mexico, Holland and the United Kingdom.

**Mr. Louis T. van den Boog**, has been a director since March, 2005. Mr. van den Boog was appointed as an Executive Director with effect from April 29, 2008 and his appointment was subsequently approved by the shareholders at their meeting and also by the Central Government as required under Section 269 of the Indian Companies Act, and other applicable provisions. Mr. van den Boog resigned as an Executive Director with effect from February 20, 2009 and continues to be a Non-Executive Director on the Board of the Company, liable to retire by rotation.

Mr. van den Boog has a Master's degree in Business Economics and in Public Accounting from the Free University in Amsterdam. He brings over 25 years of experience in the software industry. He has held various executive level positions in international software companies, as well as chairman and other board positions in a variety of private and public companies. Mr. van den Boog was previously with Oracle Corporation where he helped to build the European operations of the company. Mr van den Boog's term of office expires in 2013, but he is eligible for reappointment.

**Mr. Ashok K. Patni**, Director and is one of the founders of our company. Mr. Patni is a Mechanical Engineer from IIT, Mumbai. Mr. Patni has over 22 years of experience in computer hardware and systems software. Mr. Patni has contributed significantly in the past to the growth of the hardware business of our company which led to the formation of PCSDP in 1981, and PCSDG in 1987. These companies were merged to form what is now PCS Technology Limited in 1994. He is a Vice Chairman of PCS Technology Limited. Mr. Patni as a nominee of the AKP Group, is not required to retire by rotation from the Board.

**Mr. Pradip Baijal** was appointed as a Director of the Company with effect from June 25, 2009. Mr. Baijal is a Mechanical Engineer from IIT, Roorkee, and was a visiting fellow at Queen Elizabeth House, Oxford University during 1987-88 on privatization and reforms. He is an author and commentator on various subjects – economic reforms, steels and mines, telecommunications and privatization. He has published a book "Disinvestment In India – I Lose & You Gain" has been widely acclaimed. His papers and articles have been published in several noted journals and newspapers. Mr. Baijal is a retired Indian Administrative Services (IAS) Officer of the 1966 batch. In his career of approximately four decades, he has held a diverse set of portfolios in both the Central and State Governments in India. He was the Chairman of the Telecom Regulatory Authority of India (TRAI) from 2003 to 2006. His previous assignments include: Secretary of the Ministry of Disinvestment, senior positions in the Ministry of Power, Steel and Agriculture (Fertilizer); and in the Madhya Pradesh State Government, Principal Secretary, Industries and Chairman of nine industrial corporations including OPTEL, the first optic fibre plant in India and Secretary, Finance and Commercial Taxes. Mr. Baijal is a Whole-time Director in NOESIS Strategic Consulting Services (Pvt.) Limited and an Independent Director in Nestle India Limited and GVK Power and Infrastructure Limited. He has trained telecommunications regulators in other countries and has advised on restructuring telecommunications and IT sectors in many countries for World Bank and International Telecommunication Union. Mr. Baijal's term of office expires in 2011, but he is eligible for reappointment.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

**Dr. Michael A. Cusumano** has been a director since April, 2004. Dr. Cusumano has a B.A. degree from Princeton University and a PhD from Harvard University. Dr. Cusumano completed a postdoctoral fellowship in Production and Operations Management at the Harvard Business School. He has twice been a Fulbright Fellow as well as a Japan Foundation Fellow at the University of Tokyo, and is recipient of the Clarendon Lectures in Management award at Oxford University. Dr. Cusumano is the Sloan Management Review Distinguished Professor at MIT's Sloan School of Management. He is also a director of Eliza Corporation, a specialist in speech recognition software applications, focused on healthcare. He serves on the advisory boards of FixStars Corp., a Japanese developer of high-performance computing applications, and H-5 Technologies, a specialist in digital search technology. He has consulted for more than 50 major companies around the world and advises several other startup software companies. He is the author or co-author of eight books. Dr. Cusumano's term of office expires in 2013 but he is eligible for reappointment.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

### Table of Contents

**Mr. Arun Duggal** has been a Director since November 2003. Mr. Duggal has had a 26-year career with Bank of America, mostly in the U.S., Hong Kong and Japan. His last assignment with the Bank was as Chief Executive Officer in India from 1998 to 2001. From 2001 to 2003, he was Chief Financial Officer of HCL Technologies, India.

He is Chairman of the Board of Directors of Shriram Transport Finance Company, Shriram Properties Ltd, Shriram City Union Finance Ltd., and Shriram EPC Limited. He is also Vice-Chairman of International Asset Reconstruction Company.

He is on the Board of Directors of Jubilant Energy NV, Fidelity Fund Management, Zuari Industries, Info Edge (India), Dish TV India Ltd., Mundra Port & SEZ Ltd., Hertz (India) and Mortice Limited (Singapore). He is Vice Chairman of Indian Venture Capital Association. He is also a Board Member and erstwhile Chairman of the American Chamber of Commerce, India. He was on the Board of Governors of the National Institute of Bank Management. Mr. Duggal is the Chairman of the Board of Bellwether Microfinance Fund. He is Advisor to IMA (formerly Economist Intelligence Unit, India). He is a member of the Investment Committee of Axis Private Equity. He is a Trustee of Centre for Civil Society, New Delhi and Senior Advisor to TPG Capital, a major private equity firm headquartered in San Francisco.

Mr. Duggal has a Bachelor's degree in Mechanical Engineering from IIT, Delhi, and a Postgraduate diploma in Management from IIM, Ahmedabad. He is also a visiting professor at the Indian Institute of Management, Ahmedabad where he teaches a course on Venture Capital & Private Equity. Mr. Duggal's term of office expires in 2011, but he is eligible for reappointment.

**Mr. Pradip Shah** has been a Director since November, 2003. Mr. Shah is a Chartered Accountant, has an MBA from the Harvard Graduate School of Business and a degree from The Institute of Cost and Works Accountants of India. Mr. Shah was responsible for introducing credit ratings in India and is a founder of CRISIL Limited.

Mr. Shah is currently the Chairman of the Board at IndAsia Fund Advisors Private Limited, Wyetch Limited and Sonata Software Limited. His directorships in other companies include AMP IndAsia Fund Advisors (Mauritius) Limited, Asset Reconstruction Company (India) Limited, BASF India Limited, Godrej & Boyce Mfg Limited, Hardy Oil & Gas Limited, Kansai Nerolac Paints Limited, KSB Pumps Limited, Mukand Limited, Panasonic Energy India Co. Limited, Pfizer Limited, Shah Foods Limited, Supra Advisors (BVI) Limited (British Virgin Islands), Tata Investment Corporation Limited, C3 Advisors Private Limited, Indo-US MIM Tech Private Ltd. Tangea Econet Assets Private Limited, Reid & Taylor Ltd, and Grindwell Norton Limited. Mr. Shah's term of office expires in 2011 but he is eligible for reappointment.

**Mr. Ramesh Venkateswaran** has been a Director since November, 2003. Mr. Venkateswaran has a Bachelor's degree in Mechanical Engineering from IIT, Mumbai and a post graduate diploma in management from IIM, Bangalore. Mr. Venkateswaran is a Management Consultant and is currently the Managing Director of Almak Management Services Private Limited. He is a visiting professor of Marketing at the Indian Institute of Management, Bangalore. He is also a founder member of a non profit organization, Vishwas. Mr. Venkateswaran's term of office expires in 2012, but he is eligible for reappointment.

**Mr. Vimal Bhandari** was appointed as a Director of the Company with effect from January 15, 2010. Mr. Bhandari is a Chartered Accountant and has studied at the Bombay University. He has also attended advanced management programs at the International Institute of Management, Lausanne, Switzerland as a part of his continuing professional education. Mr. Bhandari is currently the Country Head of AEGON N.V., a large Dutch financial services player. He is a management professional with approximately 25 years of experience in a range of businesses in the



## Edgar Filing: Patni Computer Systems LTD - Form 20-F

financial services industry. Prior to joining AEGON in mid-2004, he spent 17 years with IL&FS Ltd., the Indian infrastructure financing and financial services behemoth, of which 12 years were spent as the Executive Director and a member of the Board of Directors with responsibility of the financial services business. Additionally, he was also a Non-Executive Director on IL&FS Group entities in stock broking, private equity, infrastructure project development, and healthcare management services and was a Director-In-Charge of the asset management and merchant banking subsidiaries. As part of his social commitments, Mr. Bhandari is a Trustee of Pratham, a NGO engaged in education of slum children; he is also on the governing council of a well known management institute affiliated to University of Mumbai. Mr. Bhandari's term of office expires in 2012, but he is eligible for reappointment.

**Mr. Phaneesh Murthy** is on the board of iGATE Global Solutions Limited. He is the president and chief executive officer of iGATE Corporation, the ultimate holding company of iGATE Global Solutions Limited. Mr. Murthy also serves as a member of the board of Global Edge Software Pvt. Ltd. and Cybernet Systems, Inc. In January 2003, he founded Quintant Services Limited, an India-based business process outsourcing company that was acquired by iGATE Global Solutions Limited in August 2003. Prior to that, he founded Primentor, a U.S. based consulting firm. From 1992 to 2002, He held various positions at Infosys Technologies Limited. He holds a master's degree in business administration from the Indian Institute of Management, Ahmedabad, India and received the equivalent of a bachelor's degree from the Indian Institute of Technology in Chennai, India.

Mr. Murthy has been appointed as an Additional Director of the Company and shall hold his office till the ensuing Annual General Meeting unless re-appointed.

**Mr. Shashank Singh** is the Partner and Co-Head of the India office of Apax Partners, having helped to start the office in 2007. He joined Apax in London in 2004, as part of the Technology & Telecoms team, and has focused on investments in the telecoms and IT services / BPO spaces. His deals at Apax include iGate / Patni

Table of Contents

(leading offshore IT/BPO service provider) TIM Hellas (#3 mobile operator in Greece), Weather Investments (portfolio of developed and developing market mobile operators), TDC (incumbent telecoms operator in Denmark), Bezeq (incumbent telecoms operator in Israel) and Synetrix (public authority-focused network integrator in the UK). Prior to joining Apax Partners, Mr. Singh spent four years as a strategy consultant with Monitor Company in their London, Madrid, Amsterdam, Stockholm, Munich, Mumbai and Tel Aviv offices. His focus at Monitor was on leading client engagements in the telecommunications and high technology sectors. Mr. Singh has an MBA from Harvard Business School, from which he graduated as a Baker Scholar. He also has a first class degree in economics from Cambridge University, and a BA (Honours) with distinction from St. Stephen's College (University of Delhi).

Mr. Singh has been appointed as an Additional Director of the Company and shall hold his office till the ensuing Annual General Meeting unless re-appointed.

**Former Directors**

**Mr. Gajendra K. Patni**, Director and is one of the founders of our company. Mr. Patni has a Chemical Engineering background and has over 35 years of experience in finance, banking, legal and personnel functions. He has contributed significantly in the past to the growth of the computer rental business of our company, which led to the formation of PCS Data Products (PCSDP) in 1981, and PCS Data General (PCSDG) in 1987. These companies were merged to form what is now PCS Technology Limited in 1994. Mr. Patni is a Chairman of PCS Technology Limited. Previously he was the Managing Director of Industrial Oxygen Company Limited. Mr. Patni as a nominee of the GKP Group and has resigned as director of the Company with effect from February 8, 2011.

**Mr. William O. Grabe** has been a Director since September, 2002. Mr. Grabe has a BS degree in Engineering from New York University and an MBA from the University of California, Los Angeles. Since 1992, Mr. Grabe has been a managing director at General Atlantic LLC, a worldwide private equity firm. Prior to that, he was a Vice President of IBM and held various positions, the last of which was head, North America Sales and Marketing. He is a Director of various companies including Compuware Corporation, Gartner, AKQA, and Lenovo Group Company. General Atlantic is one of our principal shareholders, with a shareholding of 17.47%. See Item 7. Major Shareholders and Related Party Transactions and Relationship with General Atlantic below. Mr. Grabe has resigned as director of the Company with effect from February 8, 2011.

**Mr. Abhay Havaldar** was acting as an Alternate Director to Mr. William O. Grabe since 2002. Mr. William Grabe was the Nominee Director of General Atlantic, one of our largest shareholders, who resigned as a Director (along with Mr. Abhay Havaldar) with effect from February 8, 2011. Mr. Havaldar holds a Bachelors degree in electrical engineering from the University of Bombay and a Masters in Management degree from the Sloan Fellow program at the London Business School.

Mr. Havaldar is the Managing Director at General Atlantic LLC, a worldwide private equity firm, where he has worked since 2002. Mr. Havaldar established General Atlantic's India office in 2002 and remains based in Mumbai, India where he leads General Atlantic's South East Asia investment initiatives with a focus on Financial Services and Enterprise Solutions. He currently serves as a Director on the board of Jubilant Organosys Limited, Infotech Enterprises Limited, Transformix India Private Limited and IBS Software Services Private Limited. Prior to this, Mr. Havaldar started his career with TATA and held operating management responsibilities at TATA Infotech and HCL Infosystems.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

Mr. Havaldar has been an investor in Indian businesses since 1996, as a partner at Draper International and Connect Capital. He is a Charter Member of The Indus Entrepreneurs (TIE) and a Board member of Society for Innovation and Entrepreneurship (SINE).

### Executive Officers

**Mr. Surjeet Singh** is our Chief Financial Officer. Mr. Singh is a graduate from Harvard Business School (Advanced Management Program), holds a B.S. in Finance and Accounting from the University of Pune and is a fellow of the Institute of Costs and Works Accountants, India and AICPA, USA. He is responsible for overall financial strategy, financial operations & compliances of the Company on a global basis. He is chartered with managing the ongoing business planning and review process, ensuring a balanced portfolio for financial and other resource allocation (s), and maintaining the highest level of integrity and transparency in the company operations to help maximize sustainable long-term shareholder value. In addition in the past, he has managed and provided oversight to M&A and global business operations functions. During this time, he led various initiatives to help streamline the operational parameters and drive operational excellence in many areas, including internal systems, supply chain, overall cost . Prior to joining Patni, he was the CFO at Cymbal which he co-founded and which has since been acquired by Patni. In all, Mr. Singh has around two decades of multi-industry global experience holding senior management positions in leading finance, business planning and global supply chain functions. He has a successful track record of building finance as a key business enabler, and fostering collaboration in large and mid-sized culturally diverse, global and matrixed organizations.

**Mr. Ajay Chamania** is our Executive Vice-President and Global Head of the Product Engineering Services business at Patni. Mr. Chamania is a graduate of Harvard Business School s Advanced Management Program and has a Bachelor s degree in Electronics & Telecommunication from the National Institute of Technology, Bhopal, India. He is responsible for the organization s footprint in Product Engineering practices catering to

Table of Contents

Storage, Automotives, Medical Devices, Industrial Automation, Consumer Electronics and ISV product domains. Mr. Chamania began his career with Patni in 1986 and over the last two decades has been instrumental in establishing and managing some large engineering engagements for leading global technology companies. Since 2001, he has been actively involved in Patni's R&D and embedded technology business and has played an instrumental role in building and transforming it into a robust and successful Product Engineering Services business unit for the company.

**Mr. Sunil Chitale** is our Executive Vice-President and Chief Marketing & Strategy Officer. Mr. Chitale has a Bachelor's degree from the Institute of Technology, Banaras Hindu University, India. He is responsible for strengthening and growing Patni's capabilities in ERP, Business Intelligence, CRM and allied packaged software applications. He oversees delivery of business value to Patni's customers globally by offering full life-cycle solutions that leverage enterprise software platforms. He is also accountable for Patni's services delivery to customers in the EMEA and SAARC regions. In addition, he oversees the Patni Academy for Competency Enhancement (PACE) and the Global Resources in Technology (GRiT) functions. Mr. Chitale began his career with Patni in 1985 and has experience in managing large relationship portfolios. He has helped several customers in leveraging the global delivery model through effective use of domain, consulting and technology in a managed services mode.

**Dr. Anil Gupta** is our Executive Vice President and Global Head - Business Support, with a focus on managing gross margins and cost structure. Dr. Gupta holds a B. Tech in Mechanical Engineering from IIT Delhi; a Master's in Mechanical and Aerospace Engineering from University of Delaware, US; and a Ph. D. in Industrial Engineering and Operations Research from University of California, Berkeley. His responsibilities include Sales Operations, Enterprise Resource Planning, Business Continuity, Enterprise Risk Management, Global Travel, IT, Procurement and Facilities. Dr. Gupta has diverse experience of over 28 years with a strong emphasis towards driving business efficiencies. Prior to joining Patni, he was the Chief Operating Officer at Aditi Technologies Pvt. Ltd. Prior to Aditi, he was with Sun Microsystems for eleven years in various executive roles in IT, Sourcing, M&A, and Software Engineering; and for over six years with AT&T in Marketing & Bell Laboratories. Dr. Gupta brings significant experience around leadership development, operational efficiency, process improvement using Six Sigma methodologies, and change management.

**Mr. Satish Joshi** is our Executive Vice President and Global Head - Technology & Innovation. Mr. Joshi holds a Bachelor's degree in Electrical Engineering and a Master's degree in Computer Science from IIT, Mumbai. He is responsible for rendering specialized enterprise-wide technology services, besides developing, nurturing and managing innovation. He is also responsible for developing and driving R&D initiatives to provide cutting-edge business solutions using new and emerging technologies. Mr. Joshi has been with the company since 1983. Prior to Patni, he worked with the Tata Institute of Fundamental Research in areas such as concurrent programming languages, storage techniques for large databases, compiler optimization and data communication networks.

**Mr. Sanjiv Kapur** is our Senior Vice President and Global Head - BPO & CIS. He has responsibility of defining and executing the growth strategy for Patni's Business Process Outsourcing (BPO) and Customer Interaction Services (CIS) business globally. In his role, he manages business operations, financial performance, operational excellence, delivery capability and customer leadership for Patni's BPO & CIS business. Mr. Kapur established BPO operations for Patni from a ground up and played an instrumental role in expanding and growing the business over the last several years, by adopting an integrated IT-BPO-KPO framework. Under his leadership, Patni has helped several large companies leverage the global sourcing model for business growth and competitive advantage. MR. Kapur has over 20 years of experience spanning strategy, operations, and sales in global BPO and the IT industry. Prior to Patni, he was Executive Vice-President at HCL BPO with responsibility of international sales and strategy. He has also held various positions at leading Telecom-IT-ITES companies.

**Mr. Derek Kemp** is our Executive Vice President, President of Europe, Middle East & Africa (EMEA). Mr. Kemp has a Bachelor's degree in Mathematical Sciences from the Robert Gordon University, Scotland. He is responsible for business across all Industry Verticals in EMEA. Mr. Kemp joined Patni in 2008 and prior to being appointed in this role he was the Global Industry Head for Communications, Media and

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

Utilities. Mr. Kemp started his career in 1981, has extensive experience in consulting, managing diverse service lines, systems integration, outsourcing, operating in Telecommunications, Energy & Utilities and Financial Services markets globally. Mr. Kemp spent 17 years working for LogicaCMG where he was latterly a member of the UK board. He was also the Practice Head for Financial Services & Media at Charteris and prior to joining Patni he was the Managing Director of Polestar Applied Solutions.

**Mr. Vijay Khare** is our Executive Vice President and Global Head of Industry Verticals. Mr. Khare has a Bachelor's degree in Engineering from the Regional Engineering College, Nagpur and a Master's degree in Computer Science from the Indian Institute of Technology, Powai. He is responsible for defining and boosting our micro-verticals strategy, structure, systems and skills. Under his guidance, the industry verticals will take ownership of pre-sales and solutioning, build deep domain industry capabilities and widen the micro-verticals coverage to forge strategic relationships with customers. Mr. Khare began his career with Patni in 1980 as a

Table of Contents

software developer and has grown over the years to hold various leadership positions in the Company. He has overseen large engagements, and headed the HR function, besides the Operational & Service Delivery Excellence portfolio.

**Mr. Deepak Khosla** is our Senior Vice President and President of SAARC region. Mr. Khosla has a mechanical engineering degree and an MBA from Bajaj Institute of Management. He is responsible for the development and growth of the region with a keen focus on the India market. Mr. Khosla drives the operations for the region, including defining and executing sales initiatives aimed at strategic business acquisitions. In his earlier roles at Patni, Mr. Khosla has managed the APAC and Japan regions, in addition to holding the Company's Global Marketing portfolio. Mr. Khosla has widespread global experience spanning 22 years in the IT industry. A conceptual seller, Mr. Khosla has spent several years in global markets including Europe, Japan, the Far East and the US. Highly skilled in developing emerging markets, he has played a pivotal role in opening up the Japan market for Patni. He is now set to bring this strategic experience into the growing SAARC region. Prior to joining Patni, Mr. Khosla was a Director of Sales at SAS Inc. His other experience includes setting up of the India operations for Dun & Bradstreet. He has also worked with Digital Equipment Corporation, HCL Corporation and Zensar Technologies.

**Mr. Naresh Lakhanpal** is our Executive Vice President and President of Americas. Mr. Lakhanpal has a Bachelors of Science, Business Administration degree from the University of Texas-Dallas, and a Masters of Business Administration degree from Amber University. He is responsible for operational excellence, strategy, customer leadership, growth and execution of the Americas region. Mr. Lakhanpal has over 23 years of diverse business experience, and his background includes operations, sales, engineering, new venture formation, product development and strategy. Prior to joining Patni, he was Global Practice Director of the Technology, Media and Telecommunication Practice for Deloitte; CEO of Navigational Sciences and held management positions with Tandem Computers and Ericsson.

**Mr. V. Mathivanan** is our Executive Vice-President and President of APAC region which he leads from Singapore, the company's new regional headquarters. Mr. Mathivanan brings with him over 30 years of experience specializing in IT with companies such as PSA Corp, Singapore Network Services (SNS) and CrimsonLogic. Mr. Mathivanan served as Managing Director of Singapore Network Services (SNS) and transformed the Singapore-based EDI company into CrimsonLogic, a global IT solutions and services provider expanding into operations in the Americas, Asia Pacific and the Middle East. Mr. Mathivanan has had a successful track record in large scale nationwide IT implementations. In Port of Singapore Authority and PSA Corp, he led the automation and computerization of port operations for which he was awarded the coveted Public Administration Award from the President of Singapore.

**Mr. Steve Correa** is our Executive Vice President and Chief Human Resources Officer with the responsibility for spearheading Patni's human capital initiatives globally including the strategic direction and focus for employee management. Mr. Correa has diverse experience of over 25 years. Prior to joining Patni, he worked with the Vodafone Group. He spent the early part of his career with several multinationals including Burroughs Wellcome, Modi Xerox and Hindustan Unilever. Mr. Correa is a postgraduate from XLRI, Jamshedpur; a Bachelor in Commerce as well as in Legal law and is an alumnus of Leeds Business School.

**Mr. Niket Ghate** is our Executive Vice-President and General Counsel, with responsibilities for handling legal and compliance issues for all businesses of Patni on a global basis. Mr Ghate has diverse experience of over 19 years with strong business exposure. He has earlier worked with Transocean, Carrier Air Conditioners and Refrigeration, KPMG, Tata-Lucent Technologies, Owens BILT Limited, and Mumbai High Court. He holds an LLB from the University College of Law, Nagpur and has certifications from the Institute of Company Secretaries of India, and the Institute of Chartered Secretaries & Administrators of United Kingdom (ICSA).

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

**Mr. Manish Mehta** is our Executive Vice-President and Chief Delivery Officer (Application Services) with overall responsibility for Application Development & Application Maintenance (AD&AM) and Enterprise Software and Systems Integration (ES & SI). He oversees all AD & AM Delivery globally, besides strengthening and growing Patni's capabilities in ERP, Business Intelligence, CRM and allied packaged software applications. Mr Mehta has diverse experience of over 29 years with strong business exposure. Prior to Patni, he was with Mahindra Satyam for over 13 years. Earlier he was with TCS for almost 15 years and he also worked briefly with Datamatics. Mr Mehta holds a dual Master's Degree in Science (Chemistry) & Engineering (Industrial Development) both from Birla Institute of Technology and Science, Pilani.

**Mr. Rajiv Ranjan** is our Executive Vice-President and Global Head - Business Operations with responsibility for Sales Operations, Revenue Planning, Delivery Operations Support (DOS), Large Deal Pursuits and Corporate Planning. Mr. Ranjan has diverse experience of over 24 years working with leading IT / ITES companies in the US and India, as also with some of the biggest healthcare companies such as CVS Caremark, Cigna Healthcare and United Healthcare. Mr. Ranjan holds a Postgraduate Degree in Business Management from IIM, Ahmedabad and an MBA from the University of Michigan

**Mr. Apoorva Singh** is our Senior Vice-President and Global Head of Infrastructure Management Services (IMS) with responsibility for defining and executing the growth strategy for Patni's Infrastructure Management Services, globally. In this role, he is responsible for strategy, new client acquisition, client relationship, operational

Table of Contents

excellence and financial performance, for Patni's IMS business. Mr Singh has diverse experience of over 15 years with strong business exposure. Prior to Patni, Apoorva was with Infosys as Head of IMS in the EMEA region. Earlier, he worked with Solix/ Emagia Corporation, MeraNet Private Limited, and Maruti Udyog Limited. Mr Singh holds a Bachelor's Degree in Mechanical Engineering from G.B. Pant University, Uttarakhand and a Post Graduate Diploma in Marketing & Finance from IIM, Lucknow.

**Former Executive Officers**

**Mr. Vijay Mehra** was our Executive Vice President and Global Head of Industry Verticals until January 20, 2010. Mr. Mehra holds an MBA, a Masters in Systems Engineering from MIT, a Bachelors of Science (Operations Research and Industrial Engineering), and a Bachelors of Arts (Economics) from Cornell University. He is an eminent speaker at global and regional conferences and has been awarded Best CIO, Large Corporate (by 9.9 Media, a corporation co-founded by an ex McKinsey partner and founding dean of the ISB). With his strong track record of leveraging information technology to create competitive advantage and his global experience, Mr. Mehra was responsible for defining and boosting Patni's micro-verticals strategy, structure, systems and skills. Under his guidance, the industry verticals will take ownership of pre-sales and solutioning, build deep domain industry capabilities and widen the micro-verticals coverage to forge strategic relationships with customers. Before joining Patni, Mr. Mehra was Global CIO at the Essar Group of Companies where he led the turn-around of the IT function at Essar and also led the IT-enabled business transformation of the Group across all businesses. Vijay comes with over 20 years of global management and consulting experience across six countries and has worked with leading corporations including McKinsey & Co, CSC Consulting, Syntel Inc. and Motorola Inc.

**Mr. Rajesh Padmanabhan** was our Executive Vice-President and Global Head Human Resources until July 9, 2010. Mr. Padmanabhan has a Master's degree in management specializing in human resources and finance. His responsibilities include spearheading Patni's human capital initiatives globally including the strategic direction and focus for employee management. Mr. Padmanabhan has over 24 years of diverse industry experience in systems, finance, business and global human resources in IT, hospitality, financial services and manufacturing, retail and distribution. He is well-versed with global HR operations and has managed multi-cultural work forces in a few countries. Prior to joining Patni, Mr. Padmanabhan was Executive Vice-President with the Oberoi group responsible for group human resources and the Oberoi Centre for learning and development. He has also worked as Global Head of Human Capital for Essel Propack and with the ICICI group in different roles in systems, corporate banking, leasing and human resources.

**Relationship with General Atlantic**

Our largest shareholder is General Atlantic Mauritius Limited, a Mauritius company formed by General Atlantic LLC, or General Atlantic, for purposes of this section. General Atlantic is a private equity firm that focuses on the information technology, process outsourcing and communications industries.

One of our former directors, Mr. William O. Grabe, has been a managing director of General Atlantic since 1992. In addition, Mr. Arun Duggal and Mr. Louis T. van den Boog were the former special advisors to General Atlantic. Special advisors are persons with industry and/or geographic expertise that provide, on a part-time basis, a range of advisory services to General Atlantic in different parts of the world. These services range from identifying new investment opportunities to assisting in the preparation of investment proposals, serving on the boards of portfolio companies and providing strategic advice to such portfolio companies. Special advisors are not directors, managing directors, general partners, executive officers or employees of General Atlantic or any of its affiliates, and do not have any other formal association with General Atlantic, except that they enter into consulting agreements with General Atlantic under which they receive a cash retainer and/or are granted the right to co-invest in one or more of the General Atlantic investment vehicles.



Mr. Grabe resigned as a director with effect from February 8, 2011. See Item 8 B. Significant Changes .

#### **Service Agreements**

Mr. Narendra K. Patni is our Chairman. Formerly, he was appointed as the President and Chief Executive Officer of Patni Americas Inc. (formerly Patni Computer Systems, Inc.), pursuant to an employment agreement between the Company and Patni Computer Systems, Inc. dated December 1, 2000, and as amended on August 29, 2003 and September 24, 2008. The aforesaid employment agreement with Mr. Narendra K. Patni had an initial term expiring on December 31, 2008. However, pursuant to the third Amendment to the employment Agreement dated February 20, 2009, the said term has been extended until December 31, 2013 unless terminated earlier in pursuance to the agreement. He ceased to be our Chief Executive Officer (CEO) with effect from February 20, 2009. However, he continues to be our Chairman. Mr. Patni's annual base salary under the agreement is \$ 974,358 (less applicable taxes and withholdings) for the first year of the term, after which time it is increased by 10% of the then current annual base salary per year. Mr. Patni does not receive a separate fee for attending board meetings. The agreement can be terminated by the Board of Directors at any time after January 1, 2009, effective no less than thirty (30) days following written notice of such termination. In the event of termination, Mr. Patni is entitled to a lump sum severance payment equal to amount of Base Salary (at the rate in effect as of the date of separation from service) he would have earned had he remained employed by the Company under this Agreement through December 31, 2013 .

Table of Contents

We had entered into a consultancy agreement with Patni Americas, Inc. (formerly Patni Computer Systems, Inc.) dated October 24, 2000, and as amended on August 19, 2003, pursuant to which Mr. Narendra K. Patni was seconded to Patni Computer Systems Limited to act as our CEO. Pursuant to an amendment to the Consultancy Agreement dated February 20, 2009, the consultancy agreement with Patni Americas Inc can be terminated only on or after December 31, 2010 (upon giving one month's written notice to Patni Americas Inc) and such termination will take effect on the expiration of such period of notice.

Mr. Jeya Kumar is our Chief Executive Officer with effect from February 20 2009 for the period of five years pursuant to the provisions of the Indian Companies Act, 1956. We have entered into an agreement dated September 8, 2009 with Mr. Jeya Kumar that provides for, *inter alia*, monthly salary, annual variable compensation, one time joining bonus, equity compensation and other benefits as described below. The said agreement may be terminated by three months' notice from either side. However, the Company, at its discretion, may choose to terminate it earlier by substituting the notice period by payment of salary in lieu of the notice period.

Mr. Jeya Kumar is eligible for an annual base (fixed) salary in Indian Rupees equivalent to SGD1,252,000 per annum payable monthly. He will also be eligible for annual variable compensation up to a maximum target amount being the Indian Rupee equivalent of SGD 2,000,000 subject to Mr. Jeya Kumar meeting certain corporate and individual performance goals / targets / Management by Objectives (MBO) as set and approved by the Compensation and Remuneration Committee and/or the Board. Other benefits / expenses, that Mr. Jeya Kumar is entitled to include, *inter alia*, housing allowance of maximum of Rupees equivalent of SGD 14,700 per month upon Mr. Jeya Kumar's relocation to the Company, and a suitable car in accordance with Company's rules and policies; all maintenance costs, fuel, cost of employing a personal driver, road tax and insurance will be borne by the Company, membership of club at Mumbai and the Company will pay the requisite fees, first class air travel and accommodation costs incurred for business purpose, in accordance with Company's rules and policy and other benefits as per rules of the Company. The stock options granted to Mr. Jeya Kumar are described in Item 6B : Compensation - Options .

Also, as per the agreement, Mr. Jeya Kumar is entitled to termination benefits. In event of termination without cause or for voluntary termination for Good Reason, Mr Jeya Kumar is entitled to a lump sum severance payment equal to amount annual salary plus the target bonus and accelerated vesting of his stock options/ RSUs as Severance. In the event of termination on change of control other than for cause or voluntary termination for Good Reason, Mr Jeya Kumar is entitled to receive full acceleration of stock options / RSUs as Change of Control Severance.

In May 2010, we entered into a retention plan with Mr. Surjeet Singh our Chief Financial Officer in addition to his existing employment terms. As per the terms of this plan he is entitled to a retention bonus equivalent to one year On-Target-Earnings (OTE) for every 12 months of continuous service, effective from the date of any Change of Control for thirty- six months thereafter. OTE is defined as his fixed cash compensation and on target variable compensation. In the event of a termination without cause, we will pay the Retention Bonus for the remaining period leading up the thirty-six month period from the effective date of the plan.

**6B Compensation**

During fiscal 2010, the aggregate annual compensation paid or payable by us and our subsidiaries to our executive directors and executive officers was approximately \$ 10.2 million as described in table below:

Name	Amount in U.S.\$	Equivalent amount in Other currencies
------	------------------	---------------------------------------

Edgar Filing: Patni Computer Systems LTD - Form 20-F

Narendra K Patni	1,440,194		
Jeya Kumar	2,241,148	Rs.	102,308,385
Surjeet Singh	1,042,500		
Vijay Khare	425,334	Rs.	19,459,806
Satish Joshi	393,723	Rs.	18,377,051
Ajay Chamania	316,317	Rs.	15,606,509
Sunil Chitale	245,074	Rs.	13,388,611
Deepak Khosla	144,423	Rs.	7,941,982
Sanjiv Kapur	126,452	Rs.	7,681,372
V Mathivanan	593,422	SGD	807,586
Naresh Lakhanpal	800,000		
Derek Kemp	626,353	GBP	405,144
Anil Gupta	355,056	Rs.	16,208,287
Steve Correa	144,007	Rs.	6,573,937
Manish Mehta	203,662	Rs.	9,297,177
Niket Ghate	278,016	Rs.	12,691,414
Rajiv Ranjan	104,427	Rs.	4,767,091
Apoorva Singh	154,342	Rs.	7,045,730
Rajesh Padmanabhan*	371,701	Rs.	16,968,173
Vijay Mehra*	164,108	Rs.	7,491,520
<b>Grand Total</b>	<b>10,170,259</b>		

Table of Contents

---

\* Resigned

Our independent directors on the board are each entitled to \$ 40,000 annually in addition to actual boarding and lodging expenses and sitting fees for attending board and committee meetings.

In addition to the abovementioned commission, the following persons are entitled for an annual commission as under:

- a) The Chairman of the Audit Committee: \$ 10,000 per annum;
- b) Members of the Audit Committee: \$ 5,000 per annum;
- c) The Chairman of Compensation & Remuneration Committee: \$ 5,000 per annum; and
- d) The Chairman of Shareholders /Investors Grievance Committee: \$ 5,000 per annum.

**Provident Fund**

All of our eligible employees receive provident fund benefits through a defined contribution plan in which both the employee and employer make monthly contributions to the plan at the rate of 12% each of the covered employee's defined portion of salary. We have no further obligations under the plan beyond the monthly contribution. We contribute to the Provident Fund Plan maintained by the Government of India.

**Benefits**

In 2010 and in 2009, we provided approximately \$0.8 and \$ 0.7 million respectively for pension, retirement or similar benefits to our founder directors..

Post employment benefit comprising of gratuity is not disclosed, since it is determined on actuarial valuation for the Company as a whole.

**Options**

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

Set forth below is information concerning options granted to directors and executive officers. The term of stock options granted to our directors and executive officers will expire on completion of five years from the date of vesting. As of February 18, 2011 our present directors and executive officers as a group were granted options under our Employee Stock Option Plan to exercise 2,851,300 Equity linked options, 1,533,400 Restricted Stock Units (RSU s) and 209,175 ADR linked options on the following terms:

Name	Exercise Price Per Share	Number of Shares under Option	Expiration Date
Dr. M. Cusumano	Rs. 254/381/458/455/\$20.78/Rs.4	20,000/5,000/5,000/5,000/2,500#/2,275#(1)	2010/2011/2012/2013/2016/2016(1)
Mr. A. Duggal	Rs. 254/381/458/455/471/2	20,000/5,000/5,000/5,000/5,000/4,550(1)	2010/2011/2012/2013/2016/2016(1)
Mr. P. Shah	Rs. 254/381/458/455/471/2	20,000/5,000/5,000/5,000/5,000/1,950(1)	2010/2011/2012/2013/2016/2016(1)
Mr. L. van den Boog	Rs. 381/458/455/2/4	20,000/5,000/5,000/96,000/1,950#(2)	2011/2012/2013/2014/2016(2)
Mr. R. Venkateswaran	Rs. 254/381/458/455/471/2	20,000/5,000/5,000/5,000/5,000/2,600(1)	2010/2011/2012/2013/2016/2016(1)
Mr. P. Bajjal	Rs 471/2	20,000/2,600(2A)	2016/2016(2A)
Mr. V. Bhandari	Rs 471/2	20,000/2,600(2A)	2016/2016(2A)
Mr. J. Kumar	Rs. 106/2/2	1,500,000/350,000/240,500(3)	2015/2015/2016(3)
Mr. S. Singh	Rs. 451/493/336/112/2/4/4	11,000/11,000/150,000/300,000/(4) 500,000/31,820/30,510	2011/2012/2012/2014/2014/2015/2016(4)
Mr. A. Chamania	Rs. 145/338/2/2	34,700/55,000/21,710/1,420(5)	2009/2010/2015/2016(5)
Mr. S. Chitale	Rs. 145/338/2/2	37,200/61,000/26,020/5,660(5)	2009/2010/2015/2016(5)
Dr. Anil Gupta	Rs. 2/2	20,000/2,600(8)	2016/2016(8)
Mr. S. Joshi	Rs. 145/338/2/2	62,000/100,000/53,360/23,180(5)	2009/2010/2015/2016(5)
Mr. S. Kapur	Rs. 145/2/2	20,000/1,850/130(6)	2009/2015/2016(6)
Mr. D. Kemp	\$18.40/Rs. 4/4	20,000#/4,000#/3,120#(7)	2015/2016/2016(7)
Mr. V. Khare	Rs. 145/338/2/2	63,300/100,000/42,860/12,540(5)	2009/2010/2015/2016(5)
Mr. D. Khosla	Rs. 145/338/2/2	16,200/54,900/21,080/5,590(5)	2009/2010/2015/2016(5)
Mr. N. Lakhanpal	\$18.40/Rs.4	50,000#/6,500#(8)	2015/2016(8)
Mr. V. Mathivanan	\$18.40/Rs. 4	50,000#/6,500#(8)	2015/2016(8)
Mr. Steve Correa	Rs. 2	20,000(9)	2016(9)
Mr. Niket Ghate	Rs.2 /2	20,000/2,600(10)	2016/2016(10)
Mr. Manish Mehta	Rs. 2	20,000(9)	2016(9)
Mr. Rajiv Ranjan	Rs. 2	20,000(9)	2016(9)
Mr. Apoorva Singh	Rs. 2	12,000(9)	2016(9)

Table of Contents

#ADR linked Options

(1) In respect of the first grant, options will vest in four equal installments, i.e. 25% each year and expiry date in respect of said grant will be from 2010 to 2013. However, first vesting i.e. 25% of said grant has expired in July 2010. In respect of the second, third, fourth and fifth grants, options will vest in four equal installments, i.e. 25% each year and expiry date in respect of said four grants will be from 2011 to 2014, 2012 to 2015, 2013 to 2016, and 2016 to 2019 respectively. In respect of the last grant the options will vest in full at the end of first year and will expire in 2016.

(2) In respect of the first four grants, options will vest in four equal installments, i.e. 25% each year, and expiry date in respect of said four grants will be from 2011 to 2014, 2012 to 2015, 2013 to 2016 and 2014 to 2017\* respectively and in respect of the last grant, the options will vest in full at the end of first year and it will expire in 2016.

*\*The Compensation and Remuneration Committee, in its absolute discretion, has been empowered to accelerate the vesting of unvested RSUs.*

(2A) In respect of the first grant, options will vest in four equal installments, i.e. 25% each year, and expiry date in respect of said grant will be from 2016 to 2019. In respect of the last grant, the options will vest in full at the end of first year and it will expire in 2016.

(3) In respect of the first grant, options will vest in four equal installments, i.e. 25% each year, and expiry date in respect of the said grant will be from 2015 to 2018\*. In respect of the second grant, the RSUs will vest in two equal installments i.e. 50% each year and expiry date in respect of the said grant will be from 2015 to 2016\*.

*\*As per the terms of his appointment, vesting of unvested RSUs and equity linked options can be accelerated on happening of certain circumstances. In respect of last grant, the options will vests in full at the end of first year and it will expire in 2016.*

(4) In respect of the first five grants, options will vest in four equal installments, i.e. 25% each year, and expiry date in respect of the first three grants will be from 2011 to 2014, 2012 to 2015, 2012 to 2015 respectively and expiry date in respect of the fourth and the fifth grant will be from 2014 to 2017\*.

*\*The Compensation and Remuneration Committee, in its absolute discretion, has been empowered to accelerate the vesting of unvested RSUs and equity linked options in certain circumstances.*

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

In respect of the sixth grant, options will vest in two equal installments i.e. 50% each year and expiry date in respect of said grant will be from 2015 to 2016.

In respect of the last grant, the options will vests in full at the end of first year and it will expire in 2016.

(5) In respect of the first grant, options will vest in four equal installments, i.e. 25% each year and expiry date in respect of the said grant will be from 2009 to 2012. However, the first and second vesting i.e. 25% each of said grant has expired in 2009 and 2010, respectively. In respect of the second grant, options will vest in four equal installments, i.e. 25% each year, and expiry date in respect of the said grant will be from 2010 to 2013. However, first vesting i.e. 25% of the said grant has expired in October 2010. In respect of the third grant, options will vest in two equal installments, i.e. 50% each year and expiry date in respect of said grant will be from 2015 to 2016. In respect of the last grant, the options will vest in full at the end of the first year and it will expire in 2016.

(6) In respect of the first grant, options will vest in four equal installments, i.e. 25% each year, and expiry date in respect of the said grant will be from 2009 to 2012. However, the first and second vesting i.e. 25% each of said grant has expired in 2009 and 2010, respectively. In respect of second grant, options will vest in two equal installments, i.e. 50% each year and expiry date in respect of said grant will be from 2015 to 2016. In respect of last grant, the options will vest in full at the end of first year and it will expire in 2016.

(7) In respect of the first grant, options will vest in four equal installments, i.e. 25% each year, and expiry date in respect of the said grant will be from 2015 to 2018 and in respect of the second grant, the options will vest in three installments, i.e. 30%, 30% and 40% each year, and expiry date in respect of the said grant will be from 2016 to 2018. In respect of the last grant, the options will vest in full at the end of first year and it will expire in 2016.

Table of Contents

(8) In respect of the first grant, options will vest in four equal installments, i.e. 25% each year, and expiry date in respect of the said grant will be from 2015 to 2018. In respect of the last grant, the options will vest in full at the end of the first year and it will expire in 2016.

(9) The options will vest in full at the end of the first year and it will expire in 2016.

(10) In respect of the first grant, the options will vest in three installments, i.e. 30%, 30% and 40% each year, and expiry date in respect of the said grant will be from 2016 to 2018. In respect of the last grant, the options will vest in full at the end of first year and it will expire in 2016.

**6.C. Board Practices**

**Board Composition**

As per the provisions of the Articles of Association of the Company, our Board shall be comprised of not less than three directors and not more than twelve directors, Our current strength of the Board is twelve directors. Further our Articles of Association also provides that Mr. Narendra K. Patni, Mr. Gajendra K. Patni and Mr. Ashok K. Patni, being nominees of the NKP Group, GKP Group and AKP Group respectively, are permanent directors of the Company. Mr. Gajendra K. Patni has resigned as director of the Company with effect from February 8, 2011.

Mr. Phaneesh Murthy and Mr. Shashank Singh have been appointed as an Additional Directors of the Company and shall hold their office till the ensuing Annual General Meeting unless re-appointed.

Pursuant to the provisions of the Articles of Association, two thirds of the total Board of Directors of the Company will retire by rotation but be eligible for reappointment. Out of this two-thirds, one-third will be retiring at every Annual General Meeting but eligible for re-election can be reappointed at such AGM. Accordingly, Dr. Michael A. Cusumano's term of office expires in 2013, but he is eligible for reappointment. Mr. Arun Duggal's term of office expires in 2011, but he is eligible for reappointment. Mr. Pradip Shah's term of office expires in 2011, but he is eligible for reappointment. Mr. Ramesh Venkateswaran's term of office expires in 2012, but he is eligible for reappointment. Mr. Louis T. van den Boog ceased to be an Executive Director with effect from February 20, 2009 but he continues to be Non-Executive Director on the Board of the Company, liable to retire by rotation. Mr. van den Boog's term of office expires in 2013, but he is eligible for reappointment. Mr. Pradip Bajjal's term of office expires in 2011, but he is eligible for reappointment. Mr. Vimal Bhandari was appointed as a Director of the Company with effect from January 15, 2010 and his term of office expires in 2012, but he is eligible for reappointment. For information regarding our board, see Item 6.B. Compensation - Service Agreements above and Item 10.B. Additional Information Board of Directors

**Board Committees**

*Audit Committee*



The Audit Committee members are Mr. Pradip Shah (Chairman), Mr. Arun Duggal, and Mr. Vimal Bhandari. The primary objective of the Audit Committee is to monitor and provide effective supervision of our financial reporting process with a view towards ensuring accurate, timely and proper disclosures and the transparency, integrity and quality of financial reporting. Our Audit Committee oversees the work carried out in the financial reporting process by our management, including the internal auditors and reviews the processes and safeguards employed by each. In addition our Audit Committee has the responsibility of oversight and supervision over our system of internal control over financial reporting, audit process, and process for monitoring the compliance with related laws and regulations. The Audit Committee recommends to our Board of Directors the appointment, reappointment and if required the replacement or removal of our independent auditors and fixation of audit and non-audit fees.

***Compensation and Remuneration Committee***

The Compensation and Remuneration Committee members are Mr. Ramesh Venkateswaran (Chairman), Dr. Michael Cusumano (Member), Mr. Pradip Bajjal (Member) and Mr. Jeya Kumar (Permanent invitee). The Committee has overall responsibility for approving and evaluating compensation plans, policies and programs of the CEO and senior management of the Company. The Committee shall make recommendations to the Board on Stock Option plans for all employees. The Committee shall also facilitate the recommendation of compensation for Board members.

***Shareholders / Investors Grievances Committee***

The Shareholders / Investors Grievances Committee members are Mr. Pradip Bajjal (Chairman), Mr. Louis T. van den Boog and Mr. William O. Grabe (resigned effective February 8, 2011) (Mr. Abhay Havaladar being the Alternate Director to him ). The Shareholders / Investors Grievances Committee, inter alia, looks into redressal of shareholders and investors complaints, issue of duplicate/split/consolidated share certificates, if any.

Table of Contents

*Nominating & Governance Committee*

The Nominating & Governance Committee members are Mr. Narendra K Patni (Chairman), Mr. Ramesh Venkateswaran, Dr. Michael Cusumano, Mr. Pradip Bajjal and Mr Ashok K Patni. Mr. Narendra K Patni was appointed as the Chairman of the Nominating & Governance Committee with effect from February 11, 2009. The Committee was constituted, *inter alia*, to develop and recommend to the Board a set of corporate governance guidelines applicable to the Company and to facilitate the evaluation of the Board and its committees.

**6.D. Employees**

For a description of our employees, see Item 4.B. Information on the Company Business Overview - Human Resources.

**6.E. Share ownership**

For the total number of equity shares, ADSs and options to purchase equity shares and ADSs for each director and executive officer as of February 18, 2011, see Item 7. Major Shareholders and Related Party Transactions and Item 6.B. Directors, Senior Management and Employees - Compensation Options .

**Employee Stock Option Plan**

On June 30, 2003, our shareholders approved an employee stock option plan, which was later ratified after our initial public offering in India by our shareholders at the annual general meeting on June 29, 2004. Under the plan, we may issue up to 11,142,085 equity shares of Rs. 2 each to our eligible employees and directors and those of our subsidiaries. The plan is administered by the Compensation and Remuneration Committee of our Board of Directors

As of February 18, 2011, options to purchase 6,214,023 equity shares were outstanding.

Details regarding various grants to employees and directors are set out below:

Table of Contents

Description of Grant	No. of options granted			No. of options Vested			Shares allotted (including underlying shares allotted pursuant to exercise of ADR Linked Options) up to February 18, 2011 pursuant to exercise of options
	Equity Linked	ADR Linked	RSUs	Equity Linked	ADR Linked	RSUs	
Grant as on September 1, 2003 to employees	2,743,400			96,328			2,045,900
Grant as on July 1, 2004 to certain of our directors	100,000			30,000			55,000
Grant as on October 1, 2004 to employees	2,758,232			535,542			1,108,150
Grant as on April 1, 2005 to employees and directors	190,000			51,000			26,500
Grant as on October 1, 2005 to employees	670,710			283,139			45,729
Grant as on January 2, 2006 to employees	288,000			75,000			11,000
Grant as on April 1, 2006 to employees and directors	345,000			65,000			5,700
Grant as on May 5, 2006 to employee	350000(1)						350,000
Grant as on July 1, 2006 to employees and directors	170,000						165,000
Grant as on October 3, 2006 to employees	840,750			259,851			89,435
Grant as on April 2, 2007 to employees	191,000	129,000		3,500	46,750		13,250
Grant as on April 24, 2007 to directors	30,000			18,750			
Grant as on November 26, 2007 to employees		25,000					
Grant as on January 2, 2008 to employees	657,000			101,650			183,780
Grant as on January 2, 2008 to employees		152,950		190,945	47,249		13,302
Grant as on November 25, 2008 to employees & Director			596,000				346,000
Grant as on November 25, 2008 to employees & Director	350,000						200,000
Grant as on January 8, 2009 to employees		20,000					
Grant as on March 10, 2009 to employees	1,500,000		350,000	375,000		175000	
Grant as on July 6, 2009 to employees		203,905#	1,072,890		57,833	376,989	801,117
Grant as on August 26, 2009 to employees	119,600	175,000		5,500	43,750		
Grant as on November 03, 2009 to employees		15,000			3,750		
Grant as on February 10, 2010 to directors	55,000	2,500					

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

Grant as on March 3, 2010 to employees	10,000#	90,000	
Grant as on August 2, 2010 to employees	4,000#	43,000	
Grant as on October 1, 2010 to employees & directors	125,515#	553,910	1,070
Grant as on November 1, 2010 to employees		60,000	
Grant as on December 10, 2010 to employees		12,000	
Grant as on December 21, 2010 to employees		6,000	

---

(1) Includes 200,000 performance linked options granted to Mr. Mrinal Sattawala.

*# ADR linked RSUs*

Our shareholders at the annual general meeting held on June 21, 2006 had approved an amendment to the Patni ESOP 2003 to enable the Company to issue up to 2,000,000 ADR linked options to the employees of the Company as well as its subsidiaries. Accordingly, the amended plan, i.e., Patni ESOP 2003- Revised 2006 came into force with effect from June 21, 2006.

Table of Contents

Further, at the annual general meeting held on June 26, 2008, our shareholders had approved modification/repricing of the terms of options to enable the Company to issue Restricted Stock Units ( RSUs ) at an exercise price of Rs. 2 each. Accordingly, the amended plan, i.e., Patni ESOP 2003 (Revised 2008) came into force with effect from June 26, 2008.

Pursuant to the Patni ESOP Plan, we have been granting options to the employees and Directors (excluding promoters) of the Company and its subsidiaries from time to time. The limit of 11,142,085 equity shares, as approved earlier by our shareholders, is almost exhausted due to grant of options from time to time. In view of the same, our shareholders, at the 31st Annual General Meeting held on June 25, 2009, had approved the resolution in which our Board of Directors have authorized on behalf of the Company to issue and allot additional 8,000,000 Equity Shares of nominal value of Rs. 2/- (Two) each to the permanent employees of the Company (including Executive and Non-Executive Directors but excluding the Promoter Directors) under the Patni ESOP 2003 (Revised 2009) Plan created by the Company for the benefit of the employees, *inter alia*, on the terms and conditions as set out in the said Patni ESOP Plan. It was further resolved by the shareholders that options granted to Non-Executive Directors, including Independent Directors, shall not exceed 150,000 options in a financial year and in aggregate shall not be more than 1,500,000 under the said Patni ESOP Plan.

Options have been granted with an exercise price equal to the fair market value of the equity shares on the date of grant of the options or at an exercise price of Rs 2/- per share. The options we have granted vest in a graded manner from one to four years and expire at the end of five years from the date of vesting.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**7.A. Major shareholders**

The following table provides information relating to the beneficial ownership of our equity shares (directly or in the form of ADSs) as of January 31, 2011 by:

- each of our directors and executive officers;
- all of our directors and executive officers as a group; and
- each person or group of affiliated persons who is known by us to own beneficially 5% or more of our equity shares.

Beneficial ownership is determined in accordance with the rules of the U.S. Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, equity shares subject to options or warrants held by that person that are currently exercisable, or will become exercisable within 60 days are deemed outstanding, while the shares are not deemed

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

outstanding for the purpose of computing percentage ownership of any other person. Unless otherwise indicated in the footnotes below, the persons and entities named in the table have sole voting or investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

The number and percentage of shares beneficially owned are based on 131,651,330 equity shares outstanding as of February 18, 2011.

Table of Contents

	Number of Equity Shares	% of outstanding equity shares
<b>Directors and Executive Officers</b>		
Mr. Narendra K. Patni(1)	20,697,998	15.72
Mr. Gajendra K. Patni(2)	19,345,102	14.69
Mr. Ashok K. Patni(3)	20,048,102	15.23
Mr. Louis T. van den Boog(5)	144,002	0.11
Mr. Arun Duggal	5,000	0.00
Mr. Pradip Shah	25,000	0.02
Mr. Ramesh Venkateswaran	16,900	0.01
Mr. Surjeet Singh (6)	31,820	0.02
Mr. Ajay Chamania	40,855	0.03
Mr. Sunil Chitale	50,251	0.04
Mr. Satish M. Joshi	59,900	0.04
Mr. Sanjiv Kapur	950	0.00
Mr. Vijay Khare	41,300	0.03
Mr. Deepak Khosla	11,590	0.01
All Directors and Executive Officers as a Group	60,518,770	45.97
5% Shareholders		
General Atlantic Mauritius Limited(4)	22,913,949	17.47
<b>Total</b>	<b>83,432,719</b>	<b>63.38</b>

(1) Includes equity shares held by Mr. Narendra K. Patni and his relatives and entities controlled by them including iSolutions Inc., a Massachusetts corporation wholly-owned by Mrs. Poonam Patni, Mr. Narendra K. Patni's wife, and Mr. Anirudh Patni, Mr. Narendra K. Patni's son.

(2) Includes equity shares held by Mr. Gajendra K. Patni and his family members and entities controlled by them.

(3) Includes equity shares held by Mr. Ashok K. Patni and his family members and entities controlled by them.

(4) Includes 20,161,868 ADSs representing 20,161,868 equity shares held by The Bank of New York as depositary. General Atlantic Mauritius Limited, or General Atlantic, owns 2,752,081 of our equity shares directly (after the ADS offering) and 20,161,868 ADSs, each one of which represents one equity share. General Atlantic GenPar (Mauritius) Limited, or GenPar, controls the management of General Atlantic by virtue of ownership of a majority of its voting shares. General Atlantic LLC owns all the shares of GenPar.

(5) Mr. van den Boog's shareholding was acquired through previous co-investment rights in which Mr. van den Boog invested in various General Atlantic LLC investment vehicles, including one that is an investor in General Atlantic Mauritius Limited, as a result of which he has an approximate 0.2% ownership interest in General Atlantic Mauritius Limited in addition to the shareholding above.

(6) Includes 15,910 ADRs representing 31,820 equity shares

Except, as otherwise stated above and to the best of our knowledge, we are not owned or controlled directly or indirectly by any government or by any other corporation or by any other natural or legal persons. Other than as set out below with respect to the proposed acquisition by iGATE, we are not aware of any arrangement, the consummation of which may at a subsequent date, result in a change in our control

As of February 18, 2011, approximately 86% of our equity shares were held in the names of 46,753 record holders with registered addresses in India. As of February 18, 2011, there were 7 U.S. holders of record with registered addresses in the U.S. who accounted for less than 1% of our equity shares.

On January 10, 2011, Pan-Asia iGATE Solutions and iGATE Global Solutions Limited, or the Acquirers, subsidiaries of iGATE, announced, that they had entered into definitive agreements to purchase shares representing in the aggregate 63% of our current equity capital held by our major shareholders, comprising the Promoter group (Mr. Narendra Patni, Mr. Gajendra Patni and Mr. Ashok Patni) and General Atlantic Mauritius Limited, at a purchase price of Rs. 503.50 (\$ 11.3) per share. The proposed acquisition of such shares is subject to regulatory approvals and other closing conditions. Additionally, on January 11, 2011, the Acquirers and iGATE made a public announcement for an open offer to acquire an additional 20.6% of our equity capital in accordance with the requirements under the Takeover Code, and the tender offer requirements under the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations of the U.S. Securities and Exchange Commission. Depending on the number of shares tendered and accepted in the open offer, upon the completion of such open offer, the Acquirers and iGATE may own up to 83.6% of our equity capital.



Table of Contents

**7.B. Related party transactions**

**Patni Family Companies**

We enter into various transactions from time to time in the ordinary course of our business with several companies in which certain of our directors, Mr. Narendra K. Patni, Mr. Gajendra K. Patni and Mr. Ashok K. Patni, are directors and in which they and members of their families have substantial shareholdings. Such transactions were consummated on terms we believe are equivalent to those that prevail in arm's-length transactions. Mr. Narendra K. Patni does not have any management responsibilities in any of these companies. These companies are:

- PCS Technology Limited, or PCSTL, which manufactures computer hardware products and also offers hardware maintenance services.
- PCS Cullinet Private Limited, which owns and manages listed and unlisted shares and units and real estate.
- PCS Finance Private Limited, which owns and manages listed and unlisted shares and units and real estate.
- Ashoka Computer Systems Private Limited, which owns and manages listed and unlisted shares and units and real estate.
- Ravi and Ashok Enterprises which holds investments and also are engaged in assembling computers, integrating computer systems, providing total software solutions and act as a service provider.

These transactions have comprised the following:

- operating lease payments for residential and commercial property from these companies and the relatives of our founders, amounting to \$ 82,036 \$75,061 and \$94,687 for the years ended December 31 2008, 2009 and 2010, respectively; and
- security deposits paid by us for operating leases, with amounts outstanding totaling \$37,576 and \$39,106 as of the years ended December 31, 2009 and 2010, respectively.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

Additionally, we enter into various services agreement from time to time in the ordinary course of our business with General Atlantic who is our largest shareholder. Such transactions were consummated on terms we believe are equivalent to those that prevail in arm's-length transactions.

These transactions comprise of sales transaction amounting to \$ 456,729, \$ 417,220 and \$ 403,252 for the year ended December 31, 2008, 2009 and 2010, respectively. The amount outstanding as of December 31, 2009 and 2010 is \$ 67,842 and \$ 65,339 respectively.

We do not believe that any of these transactions, individually or in the aggregate, have a material effect on our business as a whole.

In addition, our Audit Committee, on an ongoing basis, reviews the terms of these transactions entered into between us and the related parties mentioned above, and inform management whether or not all such transactions and related arrangements, including payment of security deposits, are for bona fide business purposes and at prevailing market rates; and management will take all steps to ensure that such transactions are for bona fide business purposes and at prevailing market rates.

### **Consultancy Agreement**

We have entered into a consultancy agreement with Patni Americas, Inc. (formerly known as Patni Computer Systems, Inc.), our U.S. subsidiary, for, among other things, the secondment of Mr. Narendra K. Patni. See Item 6. B. Directors, Senior Management and Employees Service Agreements.

### **Deposit Agreements**

We have entered into a deposit agreement with The Bank of New York, or the depositary, and the owners of and beneficial owners of ADSs dated July 15, 2002, pursuant to which we have deposited 20,161,868 equity shares with the depositary. The depositary has executed and delivered to General Atlantic 20,161,868 ADSs representing such equity shares. The holders of ADSs can, at any time, convert their ADSs into equity shares. Under the deposit agreement, we have agreed to pay the fees, reasonable expenses and out-of-pocket charges of the depositary in accordance with agreements entered into in writing between us and the depositary from time to time. ADSs issued under this deposit agreement may, when General Atlantic wishes to sell ADSs, be exchanged, subject to applicable laws, for ADSs under the deposit agreement, which ADSs may be sold subject to applicable securities laws.

We have also entered into a deposit agreement with The Bank of New York, or the depositary, and the owners and holders of ADRs dated December 7, 2005 for deposit of equity shares of the Company from time to time with the depositary or with the Custodian as agent of the depositary for the purposes set forth in this Deposit Agreement, for the creation of ADSs representing the equity shares so deposited and for the execution and delivery of ADRs evidencing the ADSs. Each ADS represents two (2) equity shares.

Table of Contents

**Registration Rights Agreement**

We have entered into a registration rights agreement with General Atlantic, certain General Electric entities, Mr. Ashok K. Patni, Mr. Gajendra K. Patni and certain of their relatives, Mr. Narendra K. Patni and iSolutions Inc. dated July 15, 2002. From 2007, General Electric has no shareholding in the Company. This agreement grants rights with respect to registration of our equity shares under the Securities Act, certain provisions of which are summarized below. Subject to limitations provided in the registration rights agreement and in lock-up agreements that certain of these shareholders have signed, these shareholders have demand registration rights and may also require us to file an unlimited number of registration statements on Form F-3 (or the equivalent) under the Securities Act when such form is available for our use.

If we propose to register our securities under the Securities Act, these shareholders will be entitled to notice of the registration and to include their shares in the registration provided that the underwriters of that offering will have the right to limit the number of their shares included in the registration. We are required to pay all expenses arising from or incident to our performance of, or compliance with, the registration rights agreement, other than any underwriters' discounts and commissions. In addition, we are required to bear the fees, disbursements and other charges of one counsel to these shareholders in connection with any registration in an amount not exceeding \$50,000 for the first such registration and \$15,000 for any subsequent registration.

**Loans**

We grant personal loans and advances to employees who are not executive officers to meet initial conveyance and living expenses while on travel. These loans and advances are repayable in equal installments over periods ranging from one to 60 months. Interest on these loans and advances is charged at 0% to 9%. Loans and advances outstanding as of December 31, 2009 and 2010 were \$ 0.8 million and \$1.1 million. There are no outstanding loans to any of our directors or executive officers.

**7.C. Interests of experts and counsel**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

**8.A. Consolidated Statements And Other Financial Information**

The following financial statements and auditors' report for fiscal 2010 appear under Item 18 in this Annual Report:

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance sheets as of December 31, 2009 and 2010
- Consolidated Statements of Income for the years ended December 31, 2008, 2009 and 2010
- Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended December 31, 2008, 2009 and 2010
- Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2009 and 2010
- Notes to the Consolidated financial statements

### **Amount of Export Sales**

For the year ended December 31, 2010, we generated \$ 687.0 million out of \$ 701.7 million (97.9%), from the export of services out of India.

### **Legal Proceedings**

Certain income tax related legal proceedings are pending against us. We are also involved in lawsuits and claims which arise in ordinary course of business. Please see the description of various tax proceedings in the section entitled "Taxes" under Item 5. of this Annual Report. Other than as disclosed herein, there are no such matters pending that we expect to be material in relation to our business.

### **Dividends**

We do not have a stated dividend policy and determine the amount of dividends to be recommended for approval by the shareholders on a year-by-year basis by reference to our earnings, cash flow, financial condition and other factors prevailing at the time. We have paid dividends in the past. Although we have no current intention to discontinue dividend payments, we cannot assure you that any future dividends will be declared or paid or that the amount thereof will not be decreased.

Table of Contents

Owners of ADSs will be entitled to receive dividend payable in respect of the equity shares represented by such ADSs. Cash dividends in respect of the equity shares represented by the ADSs will be paid to the depositary in rupees and, will generally be converted by the depositary into U.S. dollars and distributed, net of depositary fees and expenses, to the holders of such ADSs.

Our Board of Directors at its meeting held on August 13, 2010 approved a special interim dividend of Rs. 63.0 per share (approximately \$ 1.34 per share) .

**8.B Significant Changes**

On January 10, 2011, Pan Asia iGATE Solutions and iGate Global Solutions Limited, subsidiaries of iGATE, announced, that they had entered into definitive agreements to purchase shares representing in the aggregate 63% of our current equity capital held by of our major shareholders comprising of Promoter group (Mr. Narendra Patni, Mr. Gajendra Patni and Mr. Ashok Patni) and General Atlantic Mauritius Limited, at a purchase price of Rs. 503.50 (\$ 11.3) per share. The proposed acquisition of such shares is subject to regulatory approvals and other closing conditions. Additionally, on January 11, 2011, the Acquirers and iGATE made a public announcement for an open offer to acquire an additional 20.6% of our equity capital in accordance with the requirements under the Takeover Code, and the tender offer requirements under the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations of the U.S. Securities and Exchange Commission.

Depending on the number of shares tendered and accepted in the open offer, upon the completion of such open offer, the Acquirers and iGATE may own up to 83.6% of our equity capital. Under the recently amended Indian regulations and listing agreements with the Indian stock exchanges, we are required to maintain a minimum public shareholding of 25%, and equity shares held by, among others, any member of our promoter or promoter group or ADSs issued by the depositary are not considered a part of the public float. The Acquirers and iGATE have stated in the public announcement that they shall take necessary steps to facilitate compliance with the minimum public requirements under the relevant regulations, and have also stated that, subject to certain conditions, they may consider exploring the option to delist the shares of the Company.

In the public announcement, the Acquirers and iGATE have also stated that they reserve the right to streamline/restructure our operations, assets, liabilities and/or business, through an arrangement/reconstruction, restructuring, merger (including but not limited to merger with themselves or any of their subsidiaries), demerger/delisting of our shares and/or sale of assets at a later date. They have stated that such decisions will be taken by their and/or our respective board of directors in accordance with applicable law, pursuant to business requirements from time to time. iGATE has stated that Viscaria Limited, a company backed by funds advised by Apax Partners, will make an investment in iGATE in order to facilitate the acquisition. In addition, iGATE has stated that is has secured other financing to fund the purchase.

Pursuant to such agreements, until the completion of the share purchase transactions, certain changes were to be made to our board of directors. Accordingly, Mr. Gajendra K. Patni and Mr, William O. Grabe have resigned from our board of directors with effect from February 8, 2011, and Mr. Phaneesh Murthy and Mr. Shashank Singh have been appointed as additional directors with effect from February 8, 2011. Also, as stated in the public announcement for the open offer, upon completion under the share purchase agreement with the Promoter group (comprising Mr. Narendra Patni, Mr. Gajendra Patni and Mr. Ashok Patni), three nominees of such Promoter group will resign from our board of directors and the nominees of the Acquirers will be appointed as directors.

**ITEM 9. THE OFFER AND LISTING**

**9.A. Offer and listing details**

Our equity shares have been listed and traded on the Bombay Stock Exchange Limited, or BSE, and the National Stock Exchange of India Limited, or NSE, since February 25, 2004. The prices for equity shares as quoted in the official list of each of the Indian Stock Exchanges are expressed in rupees. Our ADSs evidenced by American Depositary Receipts, or ADRs, are traded in the United States on the New York Stock Exchange, or NYSE. Our ADSs commenced trading on the NYSE on December 8, 2005. Each ADS represents two equity shares. The number of our outstanding equity shares (including the underlying shares for ADSs) as of February 18, 2011, was 131,651,330. As of February 18, 2011, there were 20,161,868 privately placed ADSs (representing 20,161,868 equity shares) and 7,053,873 ADSs outstanding (representing 14,107,746 equity shares).

The table below sets forth, for the periods indicated, the reported high and low quoted prices of our shares on the BSE, NSE and the NYSE:  
*(source [www.bseindia.com](http://www.bseindia.com), [www.nse-india.com](http://www.nse-india.com), [www.nyse.com](http://www.nyse.com), [www.federalreserve.gov](http://www.federalreserve.gov))*

Table of Contents

	BSE		NSE		NYSE	
	High \$	Low \$	High \$	Low \$	High \$	Low \$
<u>Year ended</u>						
2010	13.69	8.90	13.71	8.86	28.33	18.11
2009	10.82	1.94	10.74	1.94	21.93	4.25
2008	8.55	2.28	8.52	2.28	16.94	4.58
2007	13.96	7.62	14.59	7.55	28.30	14.59
2006	11.13	5.92	11.12	5.90	25.10	11.81
<u>2010</u>						
First Quarter	12.94	9.53	12.96	9.51	26.41	18.49
Second Quarter	13.69	10.31	13.71	10.67	28.33	21.25
Third Quarter	13.46	8.90	11.97	8.86	24.59	18.11
Fourth Quarter	11.37	9.31	11.36	9.26	22.51	19.02
<u>2009</u>						
First Quarter	2.96	1.94	2.94	1.94	6.10	4.25
Second Quarter	5.78	2.63	5.78	2.59	11.94	5.20
Third Quarter	10.10	4.97	10.11	4.96	19.00	9.89
Fourth Quarter	10.82	8.09	10.74	1.94	21.93	17.50
<u>Month ended</u>						
August 2010	11.94	9.52	11.94	9.30	23.31	19.05
September 2010	10.20	8.99	10.25	8.96	20.00	18.11
October 2010	10.82	9.40	10.93	9.38	21.80	19.06
November 2010	11.34	9.84	11.32	9.84	22.51	20.02
December 2010	11.20	9.47	11.15	9.45	21.60	20.02
January 2011	10.54	9.73	10.80	9.72	21.60	19.71
February 2011 (through February 18, 2011)	10.39	9.82	10.43	10.02	20.40	19.92

**9.B. Plan of distribution**

Not applicable.

**9.C. Markets***Trading Practices and Procedures on the Indian Stock Exchanges*Stock Exchange Regulation

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

The stock exchanges in India are regulated by the Securities and Exchange Board of India, or the SEBI, and the Capital Markets Division, Department of Economic Affairs, Ministry of Finance, the Government of India under the Securities Contracts (Regulation) Act, 1956, as amended, or the SCRA, and the Securities Contracts (Regulation) Rules, 1957, as amended, or the SCRR. The SCRA and the SCRR, together with the rules, bye-laws and regulations of the respective stock exchanges, regulate the recognition of stock exchanges, the qualifications for membership thereof and the manner in which contracts are entered into and enforced between members of such stock exchanges.

The main objective of the SEBI, pursuant to the Securities and Exchange Board of India Act, 1992, as amended, or the SEBI Act, is to promote the development of and regulate the Indian securities markets and protect the interests of investors. The SEBI Act granted the SEBI the powers to regulate the business of the Indian securities markets, including stock exchanges and other financial intermediaries, promote and monitor self-regulatory organizations, prohibit fraudulent and unfair trade practices and insider trading, and regulate substantial acquisitions of shares and takeovers of companies. The SEBI has also issued regulations concerning minimum disclosure requirements by public companies, rules and regulations concerning investor protection, buybacks of securities, employee stock option schemes, stockbrokers, merchant bankers, underwriters, mutual funds, foreign institutional investors, credit rating agencies and other capital market participants.

The SCRA has been amended to include derivatives of securities and units or any other instruments issued by any collective investment scheme to the investors in such schemes, in the definition of securities. Trading in index-linked futures, index-linked options, options on individual securities and futures on individual securities takes place on the Indian Stock Exchanges.

The Companies (Amendment) Act of 2000 amended the Indian Companies Act and incorporated significant provisions relating to securities, options in securities and equity shares with differential rights. Further, the Indian Companies Act, as amended, has empowered the SEBI to administer provisions in so far as they relate to the issue and transfer of securities, non payment of dividends in the case of listed public companies and public companies proposing to get their securities listed and to conduct inspection of a company's records in respect of matters relating to the issue and transfer of securities. The power to prosecute the defaulting companies in this connection with the said matter has also been vested with the SEBI. The Indian Companies Act allows for book building for public offerings of securities, buy back of securities, compulsory dematerialization of shares in an initial public offering of securities for a sum of Rs. 100 million or more, issue of sweat equity shares, provisions



Table of Contents

relating to corporate governance, making accounting standards issued by the Institute of Chartered Accountants of India mandatory and relaxing restrictions on inter-corporate investment and loans.

**Public Issue of Securities and Listing**

Under the Indian Companies Act, a public offering of securities in India must be made by means of a prospectus, which must contain information specified in the Indian Companies Act and the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended, or the SEBI Regulations, and be filed with the Registrar of Companies having jurisdiction over the place where a company's registered office is situated. A company's directors and promoters are subject to civil and criminal liability for misstatements in a prospectus. The Indian Companies Act also sets forth procedures for the acceptance of subscriptions and the allotment of securities among subscribers and establishes maximum commission rates for the sale of securities.

SEBI has issued detailed regulations concerning disclosures by public companies making a public offering of securities and investor protection. Previously, the Controller of Capital Issues of the Government of India regulated the prices at which companies could issue securities. The SEBI Regulations now permit companies to freely price their issues of securities in an initial public offering.

The listing of securities on recognized Indian stock exchanges is regulated by the Indian Companies Act, the SCRA, the SCRR, the SEBI Act and the listing agreements of the respective stock exchanges. Under the standard terms of stock exchange listing agreements, the governing body of each stock exchange is empowered to suspend trading of or dealing in a listed security for breach of an issuer's obligations under such agreement, however the exchange must give prior notice to the issuer of the intention to delist the securities under the SEBI (Delisting of Equity Shares) Regulations, 2009 as amended. The provisions of SEBI (Delisting of Equity Shares) Regulations, 2009 as amended, govern voluntary and compulsory delisting of shares of Indian companies from the stock exchanges. The SEBI has the power to amend listing agreements and bye-laws of stock exchanges in India.

Listed Indian companies are required to ensure that the minimum level of public shareholding, on a continuous basis, is 25% of the total issued shares capital. If the public shareholding in a listed company is reduced to below the minimum level as specified in the SCRR, such company is required to increase its public shareholding to bring the total public shareholding to at least 25% of its issued share capital within a specified time. The listing agreements with the Indian stock exchanges provide such company any of the following methods to increase its public shareholding to the required level: (a) issuance of shares to public through a prospectus; or (b) offer for sale of shares held by promoters to public through a prospectus; or (c) sale of shares held by promoters through the secondary market with the prior approval of the specified stock exchange which may impose such conditions as it deems fit. Pursuant to the Securities Contracts (Regulation) (Amendment) Rules, 2010, notified on June 4, 2010, the SCRR was amended to define public shareholding to refer to equity shares held by persons other than a company's promoter, promoter group, subsidiaries and associates, and excluding shares held by a custodian against which ADRs/GDRs have been issued overseas.

The standard listing agreements require an acquirer of a listed company's shares to comply with the disclosure and tender offer requirements under the Takeover Code. For a brief discussion on the disclosure and tender offer requirements under the Takeover Code, see Item 10. Additional Information-Takeover Code below.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

In addition, a listed company is subject to continuing disclosure requirements pursuant to the terms of its listing agreement with the relevant stock exchange, including the requirement to publish unaudited financial statements on a quarterly basis and to inform stock exchanges immediately of any price sensitive information.

The shareholders of a listed company and the company itself are also subject to certain disclosure requirements pursuant to the terms of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, as amended. Pursuant to such requirements, any person holding more than 5% equity shares or voting rights in any listed company must disclose to the company the number of equity shares or voting rights held by such person, on becoming such a holder, within two working days of (a) the receipt of intimation of allotment of equity shares or (b) the acquisition or sale of equity shares or voting rights. Additionally, any change in such shareholding or voting rights in excess of 2% (even if such change results in the shareholding or voting rights falling below 5%) is required to be disclosed to the company within two working days of (a) the receipt of intimation of allotment of equity shares or (b) the acquisition or sale of equity shares or voting rights, as the case may be. The company is also required to disclose such information received from its shareholders within two working days of the receipt of such information to the stock exchanges on which the company's equity shares are listed.

### **Indian Stock Exchanges**

The major stock exchanges in India are the BSE and the NSE, which together account for a majority of trading volumes of securities in India. The BSE and the NSE together dominate the stock exchanges in India in terms of the number of listed companies, market capitalization and trading volumes of securities.

Beginning April 1, 2003, the stock exchanges in India operate on a trading day plus two, or T+2, rolling settlement system. At the end of the T+2 period, obligations are settled with buyers of securities paying for and receiving securities, while sellers transfer and receive payment for securities. For example, trades executed on a Monday would typically be settled on a Wednesday. In order to contain the risk arising out of the transactions entered into by the members of various stock exchanges either on their own account or on behalf of their clients, the stock exchanges have designed risk management procedures, which include compulsory prescribed margins

Table of Contents

on the individual broker members, based on their outstanding exposure in the market, as well as stock-specific margins from the members.

To restrict abnormal price volatility, SEBI has instructed stock exchanges to apply the following price bands calculated at the previous day's closing price (there are no restrictions on price movements of index stocks):

*Market Wide Circuit Breakers:* Market wide circuit breakers are applied to the market for movement by 10%, 15% and 20% for two prescribed market indices, whichever is breached earlier: the BSE Sensex for the BSE, or the BSE Sensex, and the Nifty for the NSE. If any of these circuit breaker thresholds are reached, trading in all equity and equity derivatives markets nationwide is halted.

*Price Bands:* Price bands are circuit filters of up to 20% movements either up or down, and are applied to most securities traded in the markets, excluding securities included in the BSE Sensex and the NSE Nifty and derivatives products.

**The National Stock Exchange of India Limited**

The NSE was established by financial institutions and banks to provide nationwide on-line satellite linked screen-based trading facilities with market makers and electronic clearing and settlement for securities, including Government of India securities, debentures, public sector notes and units. Deliveries for trades executed on-market are exchanged through the National Securities Clearing Corporation Limited. The NSE commenced operations in the wholesale debt market and capital markets in 1994 and in derivatives in 2000. As of January 31, 2010, there were 1,558 listed companies trading on the capital markets (equities) segment of the NSE. As of January 31, 2010, the market capitalization of the NSE was approximately Rs. 64,414.91 billion.

**The Bombay Stock Exchange Limited**

The BSE, established in 1875, is the oldest stock exchange in India and has evolved over the years into its present status as the premier stock exchange of India. BSE On-line Trading (BOLT) facilitates on-line screen based trading in securities. BOLT is currently operating in 25,000 Trader Workstations located across over 359 cities in India. Derivatives trading commenced on the BSE in 2000. Retail trading in government securities commenced in January 2003. As of December 31, 2010, the BSE had 1,298 members, comprising 215 individual members, 1,061 Indian companies and 22 Foreign Institutional Investors, or FIIs. Pursuant to the BSE (Corporatization and Demutualization) Scheme 2005 of SEBI, on August 19, 2005 the BSE was incorporated as a company under the Indian Companies Act. Only a member of the BSE has the right to trade in the stocks listed on the BSE. As of January 31, 2010 there were 5,047 listed companies trading on the BSE with an estimated total market capitalization of Rs.65,931.76 billion.

Trading on both the NSE and the BSE occurs Monday through Friday between 9:00 a.m. and 3:30 p.m.

**Derivatives (Future and Options)**

Trading in derivatives is governed by the SCRA and the SEBI Act. The SCRA was amended in February 2000 and derivative contracts were included within the term securities, as defined by the SCRA. Trading in derivatives in India takes place either on separate and independent derivatives exchanges or a separate segment of an existing stock exchange. The derivative exchange or a derivative segment of a stock exchange functions as a self regulatory organization under the supervision of the SEBI. Derivatives products have been introduced in a phased manner in India.

**Depositories**

The Depositories Act, 1996, as amended, or the Depositories Act, provides the legal framework for the establishment of depositories to record ownership details and effectuate transfers in book-entry form. SEBI framed the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996, as amended, or the Depositories and Participants Regulations, which, among other things, provide for the formulation of such depositories and the regulation of participants, as well as the *inter se* rights and obligations of the depositories, participants, beneficial owners and issuers.

The National Securities Depository Limited and Central Depository Services (India) Limited are the two depositories that provide electronic depositories facilities for trading in equity and debt securities in India. SEBI mandates a company making a public or rights issue or an offer for sale to enter into an agreement with a depository for dematerialization of securities already issued or proposed to be issued to the public or existing shareholders. SEBI has also provided that the issue and allotment of shares in initial public offerings, rights offerings or offers for sale shall only be in electronic form.

**Securities Transaction Tax**

The rates applicable on taxable securities transactions are specified below:

<b>Taxable Securities Transaction</b>	<b>Rate</b>	<b>Payable by</b>
Purchase of an equity share in a company or a unit of an equity oriented fund, where: (i) the transaction of such purchase is entered into on a recognized stock exchange; and (ii) the contract for the purchase of such share or unit is settled by the actual delivery or transfer of such share or unit	0.125%	Purchaser

Table of Contents

<b>Taxable Securities Transaction</b>	<b>Rate</b>	<b>Payable by</b>
Sale of an equity share in a company or a unit of an equity oriented fund, where: (i) the transaction of such sale is entered into on a recognized stock exchange; and (ii) the contract for the sale of such share or unit is settled by the actual delivery or transfer of such share or unit	0.125%	Seller
Sale of an equity share in a company or a unit of an equity oriented fund, where; (i) the transaction of such sale is entered into on a recognized stock exchange; and (ii) the contract for the sale of such share or unit is settled otherwise than by the actual delivery or transfer of such share or unit	0.025%	Seller
Sale of derivatives where the transaction of such sale is entered into on a recognized stock exchange	0.017%	Seller
Sale of a unit of an equity oriented fund to the Mutual Fund	0.25%	Seller

The responsibility for collection of the securities transaction tax lies with the stock exchange where the purchase of securities takes place. The rates were applicable with effect from June 1, 2006.

From April 1, 2008, Securities Transaction Tax has been prescribed for following transactions:

<b>Taxable Securities Transaction</b>	<b>Rate</b>	<b>Payable by</b>
Sale of an option in Securities (payable on Option premium)	0.017%	Seller
Sale of option in securities , where option is exercised on settlement price	0.125%	Purchaser
Sale of futures in securities	0.017%	Seller

**9.D. Selling Shareholders**

Not applicable.

**9.E. Dilution**

Not applicable.

**9.F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

#### **10.A. Share Capital**

Not applicable.

#### **10.B. Memorandum and articles of association**

##### **General**

The following description of our equity shares and the material provisions of our Articles of Association, or Articles, is only a summary and is qualified in its entirety by our Articles and Memorandum and by the provisions of the Indian Companies Act which governs our affairs, and other applicable provisions of Indian law. The Ministry of Corporate Affairs, Government of India proposes to amend the existing Indian Companies Act. The draft of the amendment bill, if enacted in its current form, may result in substantial changes to the Indian Companies Act. The amendment bill has not yet been approved by the Parliament of India and the timing of such amendment is not certain as yet.

Our authorized share capital consists of 250,000,000 equity shares with a par value of Rs. 2 each. As of February 18, 2011, 131,651,330 equity shares were issued and outstanding and fully paid. On August 30, 2003 we effected a one for two stock split in the form of a stock dividend. The equity shares are our only class of share capital. We currently have no convertible debentures or warrants outstanding. Substantially all of our equity shares are in non-physical form.

We use the following terms in our Articles:

- NKP Group means Mr. Narendra K. Patni, certain of his family members, iSolutions Inc. and certain of their named entities and their respective permitted transferees and the depository bank;
- GKP Group means Mr. Gajendra K. Patni, certain of his family members and their respective permitted transferees and the depository bank;
- AKP Group means Mr. Ashok K. Patni, certain of his family members and their respective permitted transferees and the depository bank;

Table of Contents

- General Atlantic means General Atlantic Mauritius Limited, its successors and permitted assigns and General Atlantic Group means General Atlantic and its permitted transferees and the depositary bank; and
- For the purposes of this document, Significant Shareholder means each of these groups.

Registration number and the objects of the Company

Our company registration number is 11-020127 (CIN L72200MH1978PLC020127). Under our Memorandum of Association, our main objects include, but are not limited to the following:

1. To manufacture, purchase, sell or otherwise transfer, lease, import, export, hire, license, use, dispose off, operate, fabricate, construct, distribute, assemble, design, charter, acquire, market, recondition, work upon or otherwise, generally deal in any electronic, electrical, mechanical and electromechanical product, machine, apparatus, appliance, custom products, merchandise, systems, software procedures, peripheral products, computers, tabulators, data processing machines and systems and components thereof, electronic calculators, electric and electromechanical accounting systems, terminal products and systems, machines for registering data preparation, recording, perforating, tabulating, sorting, printing, typewriting products which possess an internal intelligence for recognizing and co-relating any type of data or information to be processed recognition and memory systems, optical scanning machine transmission lines, transmission equipment, terminals, copying, reproducing and distributing machines, check signing, protecting and disbursing equipment machines for facsimile reproduction, facsimile transmission and word processions facilities and accessories and devices of all kinds, and for all purposes and any products and component parts thereof or materials or articles used in connection therewith, and any-all other machinery, appliance, apparatus, devices, materials, substances, business firms and supplies, articles or things of a character similar or analogous to the foregoing, or any of them or connected therewith.
2. To establish, maintain and conduct training schools, courses and programmes in connection with the use, purchase, sale, import, export, license, distribution, design, manufacture or rental of the aforesaid types of machines, apparatus, appliances, systems and merchandise and of the articles required in the use thereof or used in connection therewith.
3. To carry on the business of developing, improving, designing, marketing, selling and licensing software and program-products of any and all description.
4. To carry on the business of electricians, electrical, electronic engineers and manufacturers of and dealers in electrical, mechanical, chemical, optical and electronic machines, appliances and apparatus of every description.
5. To carry on the business of consultants in computers, computer-oriented systems all branches of computer science, civil, electrical, electronic, mechanical, chemical, optical, metallurgical and all other branches of engineering.

6. To carry on the business of consultancy services related to the preparation and maintenance of accounting, statistical, scientific or mathematical, information and reports, data conversion, data processing, programming, collecting, storing, processing and transmitting information and data of every kind and description, systems analysis and machine services for solving or aiding commercial, industrial, scientific and research problems and for all other related business.

7. To carry on the business of advisers and consultants and collaborators on all matters and problems relating to the administration, organization, finance management, personnel, commencement or expansion of industry and business (including construction of plants and buildings production, purchases, sales marketing, advertisement, publicity, personnel export and import) and of institutions, concerns, bodies, associations (incorporated and unincorporated), departments and services of the government, public or local authorities, trusts, scientific research and development centers.

8. To supply and provide, maintain and operate, design any engineering consultancy services applicable over the whole range of industry, trade, commerce and agriculture.

#### **Board of Directors**

##### *Election*

The Articles of Association provide that our Board of Directors shall be comprised of not less than three directors and not more than twelve directors. Eight directors on the Board shall be appointed as follows:

- three permanent directors nominated by each of the AKP Group, the GKP Group and the NKP Group so long as the relevant Group holds 5% or more of the equity shares;
- one rotating director nominated by General Atlantic, so long as General Atlantic holds 5% or more of the equity shares; and
- four non-permanent independent directors who will be appointed in accordance with our Articles for a term of three years and eligible for re-election by the shareholders at the annual general meeting.



Table of Contents

Each director nominated by a Significant Shareholder shall hold office and may only be removed by that Significant Shareholder. Except in the event of the removal of a director for a breach of duty, fraud, bankruptcy or unless contrary to law, all the Significant Shareholders have agreed in the Articles that the independent directors shall not be removed except at a general meeting by the votes of shareholders (present and voting) holding not less than 51% of the equity shares, which includes the votes of at least three Significant Shareholders in a general meeting and except by a majority of the directors, which includes at least three nominee directors appointed by the Significant Shareholders.

General Atlantic is also entitled to nominate one of the members to each committee of the Board of Directors, including the Audit Committee, the Compensation Committee and such other committees, so long as General Atlantic holds 5% or more of the equity shares.

*Notice and Quorum*

Under the Articles, subject to Section 287 of the Indian Companies Act, the quorum for a meeting of the Board of Directors shall be the presence of at least four directors which must include at least one nominee director (or his or her alternate) of each of the AKP Group, the GKP Group, the NKP Group, and General Atlantic (unless the absent nominee director consents in writing to a quorum requirement being satisfied despite his or her absence). Provided that where at any time the number of interested directors exceeds or is equal to two-thirds of the total strength, the number of remaining directors, that is to say, the number of directors who are not interested, present at the meeting being not less than two, shall be the quorum during such time.

If a quorum is not present on the date the board meeting is convened, it shall automatically stand adjourned to a date 7 days after the original board meeting. The adjourned board meeting may be held on such other date and such other place as may be unanimously agreed by a nominee director of each of the AKP Group, the GKP Group, the NKP Group and General Atlantic. In the event of a quorum once again not being available at such an adjourned board meeting, the directors present shall constitute the quorum.

The Articles require that at least 15 clear days notice be provided for any board meeting unless a shorter notice period is agreed by a majority of the directors.

Under our Articles, Mr. Narendra K. Patni shall be the permanent Chairman of the Board. The Chairman shall preside at all board and shareholder meetings. In the absence of Mr. Narendra K. Patni at any meeting of the board, a General Atlantic nominee shall preside as Chairman. The Chairman has a casting vote in case of a tie. If for any reason Mr. Narendra K. Patni is unable to continue as the Chairman, the board shall appoint the Chairman.

*Interested Directors*

Pursuant to Section 300 of the Indian Companies Act, interested directors are not allowed to take part in the discussion of, or vote on, any contract or arrangement entered into or to be entered into by or on behalf of the Company if the director is in any way, directly or indirectly, concerned with or interested in the contract or arrangement. In addition, a director is required to disclose, at a meeting of the board, the nature of his concern or interest under Section 299 of the Indian Companies Act.

Under Section 297 of the Indian Companies Act, the consent of the Board of Directors is required where a director of the company or his relative, a firm in which such a director or relative is a partner, any other partner in such a firm, or a private company of which the director is a member or director, is entering into certain contracts with the company.

*Qualifying Shares*

Our directors are not required to hold any of our equity shares to be qualified to serve on the Board of Directors.

*Borrowing Powers*

Our directors shall not, except with the consent of the shareholders in a general meeting, borrow moneys, where the moneys to be borrowed together with the moneys already borrowed by the company (apart from temporary loans obtained from the company's bankers in the ordinary course of business) will exceed the aggregate of our paid up capital and the aggregate of all free reserves.

*Director Compensation*

The Board of Directors is entitled to set its remuneration subject to maximum limits prescribed by Indian law and our Articles. If the number of interested directors exceeds the quorum requirement for board meetings, then the resolution to be passed would be subject to the approval of the shareholders at a general meeting. Normally any resolution of the board regarding an increase in director's fees is subject to shareholder approval in a general meeting.

*Rotation and Retirement*

There is no age limit for retirement of our directors. Our Articles require two-thirds of our directors to retire by rotation, but they are eligible for re-election. One-third of the directors who are subject to retirement by rotation must retire at each annual general meeting but can be re-appointed at such annual general meeting.

Table of Contents

Mr. Narendra K. Patni, Mr. Gajendra K. Patni and Mr. Ashok K. Patni as the respective nominees of the NKP Group, GKP Group and AKP Group are permanent directors according to our Articles and in that capacity they are not required to retire by rotation like our other directors.

*Dividends*

Under the Indian Companies Act, the Board of Directors first recommends the payment of a dividend which is then declared by shareholders in a general meeting. However, the Board of Directors is not obliged to recommend a dividend. Under our Articles and the Indian Companies Act, our shareholders may, at the annual general meeting, declare a dividend in an amount less than that recommended by the Board of Directors, but they cannot increase the amount of the dividend recommend by the Board of Directors.

In India, listed companies are required to declare and disclose their dividends on per share basis only. The dividend recommended by the directors, if any, and subject to the limitations described above, is required to be distributed and paid to shareholders in proportion to the paid up value of their shares as on the record date for which such dividend is payable within 30 days of the approval by the shareholders at the annual general meeting. Pursuant to the Articles, the directors have discretion to declare and pay interim dividends without shareholder approval. Under the Indian Companies Act, dividends can only be paid in cash to the registered shareholder at a record date fixed on or prior to the annual general meeting or to his order or his banker's order. No shareholder is entitled to a dividend while any lien in respect of unpaid calls on any of such shareholder's shares is outstanding.

The Indian Companies Act provides that any dividends that remain unpaid or unclaimed after the 30-day period referred to above must be transferred to a special bank account. We transfer any dividends that remain unclaimed for seven years from the date of such transfer to an Investor Education and Protection Fund created by the Indian Government. The proceeds of such funds are utilized to promote investor's awareness and protection of investors' interests. Following such transfer, such unclaimed dividends cannot be claimed. Neither we nor such fund shall be liable in respect of amounts transferred to such fund.

Under the Indian Companies Act, dividends may be paid out of profits of a company in the year in which the dividend is declared or out of the undistributed profits of the previous fiscal years, in either case after providing for depreciation. Before declaring a dividend on its shares, a company is required under the Indian Companies Act to transfer to its reserves, a certain percentage of its profits for that year, ranging from 2.5% to 10% depending upon the dividend proposed to be declared in such year. The Companies (Declaration of Dividend out of Reserves) Rules, 1975 provide that, in the event of inadequacy or absence of profits in any year, a dividend may be declared for such year out of the company's accumulated profits, subject to the following conditions:

- the rate of dividend to be declared may not exceed 10% of the company's paid up capital or the average of the rate at which dividends were declared by the company in the prior five years, whichever is less;
- the total amount to be drawn from the accumulated profits earned in the previous years and transferred to the reserves may not exceed an amount equivalent to one-tenth of the sum of its paid up share capital and free reserves, and the amount so drawn is to be used first to set off the losses incurred in the fiscal year before any dividends in respect of preference or equity shares are declared; and

- the balance of the reserves after withdrawal shall not fall below 15% of its paid up capital.

### **Bonus Shares**

In addition to permitting dividends to be paid out of current or retained earnings as described above, the Indian Companies Act and our Articles permit us to distribute an amount transferred from the general reserve or surplus in our profit and loss account to shareholders in the form of bonus shares, which are similar to a stock dividend. The Indian Companies Act also permits the issue of bonus shares from a securities premium account. Bonus shares are distributed to shareholders in the proportion recommended by the Board of Directors. Shareholders of record on a fixed record date are entitled to receive such bonus shares. Any issue of bonus shares is subject to regulations issued by the SEBI.

The SEBI Regulations prescribe that no company shall, pending conversion of convertible securities, issue any shares by way of bonus unless a similar benefit is extended to the holders of such convertible securities, through reservation of shares in proportion to the convertible part of such convertible securities. The bonus issue shall be made out of free reserves built out of the genuine profits or share premium collected in cash only. The bonus issue cannot be made unless partly paid-up shares, if any, are made fully paid-up. Further, for the issue of such bonus shares a company should not have defaulted in the payment of interest or principal in respect of fixed deposits or debt securities issued by it. Further, a company should have sufficient reason to believe that it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to a provident fund, gratuity and bonus. The issue of bonus shares must be implemented within two months from the date of approval by the Board of Directors where the decision to issue bonus shares was taken subject to shareholders' approval. Where approval of the shareholders for capitalization of profits or reserves for making bonus issues is not required as per the Articles of Association, the bonus issue must be implemented within 15 days from the date of approval by the Board of Directors.

### **Consolidation and Subdivision of Shares**

The Indian Companies Act and our Articles permit us to split or combine the par value of our shares, provided such split or combination is not made in fractions. Shareholders of record on a fixed record date are entitled to receive a split or combination.

Table of Contents

**Pre-emptive Rights and Issue of Additional Shares**

The Indian Companies Act and our Articles give shareholders the pre-emptive right to subscribe for new shares in proportion to their respective existing shareholdings unless otherwise determined by a special resolution passed by a general meeting of the shareholders. This special resolution must be approved by a number of votes which is not less than three times the number of votes against the special resolution. The offer must include: (a) the right, exercisable by the shareholders of record, to renounce all the shares offered or any of them in favor of any person; and (b) the number of shares offered and the period of the offer, which may not be less than 15 days from the date of offer. If the offer is not accepted within this period, it is deemed to have been declined. The Board of Directors is authorized to distribute any new shares not purchased by the pre-emptive rights holders in the manner that it deems most beneficial to the company.

**Annual General Meeting of Shareholders**

We must convene an annual general meeting of shareholders within 15 months of the previous annual general meeting or six months after the end of each fiscal year, whichever is earlier, and may convene an extraordinary general meeting of shareholders when necessary or at the request of a shareholder or shareholders holding at least 10% of our paid up capital carrying voting rights. Written notice setting out the agenda of meeting must be given at least 21 clear days prior to the date of a general meeting to the shareholders of record. A general meeting may be called after providing a shorter notice if consent is received from all shareholders entitled to vote, in the case of an annual general meeting, and from shareholders holding not less than 95% of the paid-up capital of the company in case of any other general meeting. Shareholders who are registered as such on the date of the general meeting are entitled to attend and vote at the meeting.

The annual general meeting of shareholders must be held at our registered office or at another place within the city in which our registered office is situated. Meetings other than annual general meetings may be held at any other place if so determined by the Board of Directors.

**Quorum**

Our Articles provide that a quorum of a general meeting is at least five members present in person who shall include at least one of the duly authorized representatives of General Atlantic, the NKP Group, the GKP Group and the AKP Group. If a quorum is not present on the date the general meeting is convened, it shall be adjourned to a date 15 days after the original meeting and the shareholders who are present at the adjourned meeting shall constitute the quorum.

**Voting Rights**

At any general meeting, voting is by show of hands unless a poll is demanded by a shareholder or shareholders present in person or by proxy holding at least 10% of the total shares entitled to vote on the resolution or by those holding shares with an aggregate paid up capital of at least Rs. 50,000. Upon a show of hands, every shareholder entitled to vote and present in person has one vote and, on a poll, every shareholder entitled to vote and present in person or by proxy has voting rights in proportion to the paid up capital held by such shareholders.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

Any shareholder may appoint a proxy. The instrument appointing a proxy must be delivered to us at least 48 hours prior to the meeting. A proxy may not vote except on a poll. A corporate shareholder may appoint an authorized representative who can vote on behalf of the shareholder, both upon a show of hands and upon a poll.

Ordinary resolutions may be passed by a simple majority of those present and voting at any general meeting for which the required period of notice has been given. However, specified resolutions such as amendments to the Articles and the Memorandum, commencement of a new line of business, the waiver of the pre-emptive rights for the issue of any new shares and a reduction of share capital, require that votes cast in favor of the resolution, whether by show of hands or poll, are not less than three times the number of votes, if any, cast against the resolution by members so entitled and voting.

Further, the Indian Companies Act requires certain resolutions such as those listed below to be voted on only by a postal ballot:

- amendments of the memorandum of association to alter the objects of the company;
- change in the registered office of the company under Section 146 of the Indian Companies Act;
- alteration of the articles of association in relation to insertion of provisions defining private company;
- the issue of shares with differential rights with respect to voting, dividend or otherwise;
- the sale of the whole or substantially the whole of an undertaking of the company;
- providing loans, extending guarantees or providing a security in excess of the limits prescribed under Section 372A of the Indian Companies Act;
- varying the rights of the holders of any class of shares or debentures or other securities;
- the election of a director by minority shareholders; and
- the buy-back of shares.



Table of Contents

While the Indian Companies Act permits a company to issue shares with differential rights as to dividend, voting or otherwise, it may do so subject to certain conditions specified under the Companies (Issue of Share Capital with Differential Voting Rights) Rules, 2001, some of which are:

- the company should have distributable profits (in terms of Section 205 of the Indian Companies Act) for a period of three financial years immediately preceding the year in which it was decided to issue such shares;
- the shares with differential voting rights shall not be in excess of 25% of the total issued share capital; and
- the voting rights of existing shares cannot be altered.

Our Articles permit the issue of shares with differential voting rights. Under the listing agreements entered into with the Indian stock exchanges, a listed company cannot issue shares in any manner which may confer on any person, superior rights as to voting or dividend vis-à-vis the rights on equity shares that are already listed

Our Articles require that certain shareholders ensure that they do not vote for any resolution to vary or modify the terms of appointment of Mr. Ashok K. Patni and Mr. Gajendra K. Patni. The shareholders referred to in this provision are limited to General Atlantic, the AKP Group, the GKP Group and the NKP Group and any of their permitted transferees, permitted assigns or affiliates (as such terms are defined in the Articles).

**Register of Shareholders; Record Dates**

We are required to maintain a register of shareholders at our registered office. The register and index of beneficial owners maintained by a depository under the Depositories Act, 1996 is deemed to be an index of members and register and index of debenture holders. We recognize as shareholders only those persons who appear on our register of shareholders and do not recognize any person holding any share or part of it upon any trust, express, implied or constructive, except as permitted by law. In the case of shares held in physical form, we register transfer of shares on the register of shareholders upon receiving the share transfer form duly complete in all respects accompanied by a share certificate or if there is no certificate, the letter of allotment in respect of shares to be transferred together with duly stamped transfer forms. In respect of electronic transfers, the depository transfers shares by entering the name of the purchaser in its books as the beneficial owner of the shares. We then enter the name of the depository in our records as the registered owner of the shares. The beneficial owner is entitled to all the rights and benefits as well as the liabilities with respect to the shares that are held by the depository.

For the purposes of determining the shareholders, the register may be closed for periods not exceeding 45 days in any one year or 30 days at any one time. Under the listing agreements of the Indian Stock Exchanges, we may, upon at least seven days or of as many days as may be prescribed from time to time by stock exchanges advance notice to such stock exchanges, set a record date and/or close the register of shareholders



### **Transfer of Shares**

Shares held through depositories are transferred in the form of book entries or in electronic form in accordance with the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996. These regulations provide the regime for the functioning of the depositories and the participants and set forth the manner in which the records are to be kept and maintained and the safeguards to be followed in this system. Transfers of beneficial ownerships of shares held through a depository are exempt from stamp duty. We have entered into an agreement for such depository services with National Securities Depository Limited and the Central Depository Services (India) Limited.

The shares of an Indian public company are freely transferable, subject to the provisions of the Indian Companies Act pursuant to which if a transfer of shares contravenes the SEBI Act, or regulations made thereunder, or the Sick Industrial Companies (Special Provisions) Act, 1985 or any other similar law, the Company Law Board (which is expected to be replaced by the National Company Law Tribunal) may, on an application made by the company, a depository, a participant, an investor or SEBI, direct a rectification of the register of records. If a company without sufficient cause refuses to register a transfer of shares within two months from the date on which the instrument of transfer is delivered to the company, the transferee may appeal to the Company Law Board seeking to register the transfer of shares.

Pursuant to listing agreements with the Indian Stock Exchanges, in the event a company has not effected the transfer of shares within one month or where the company has failed to communicate to the transferee any valid objection to the transfer within the stipulated time period of one month, the company is required to compensate the aggrieved party for the opportunity losses caused during the period of delay.

Our Articles provide for certain restrictions on the transfer of shares, including granting power to the Board of Directors to refuse to register or acknowledge transfer of shares or other securities issued by the Company. However, to the extent that the provisions of the Articles are in conflict with any of the provisions of the Indian Companies Act, the Indian Companies Act shall prevail.

### **Disclosure of Ownership Interest**

Section 187C of the Indian Companies Act requires beneficial owners of shares of Indian companies who are not holders of record to declare to the company details of the holder of record and the holder of record to declare details of the beneficial owner. Any charge, promissory note or other collateral agreement created,

Table of Contents

executed or entered into with respect to any equity share by its registered owner or any hypothecation by the registered owner of any equity share shall not be enforceable by the beneficial owner or any person claiming through the beneficial owner if such declaration is not made. Failure by a person to comply with Section 187C will not affect the company's obligation to register a transfer of shares or to pay any dividends to the registered holder of any shares in respect of which the declaration has not been made. While it is unclear under Indian law whether Section 187C applies to holders of ADSs, investors who exchange ADSs for underlying equity shares will be subject to the requirements of Section 187C. Additionally, holders of ADSs may be required to comply with the notification and disclosure obligations pursuant to the provisions of the deposit agreement entered into by such holders, the company and the depository.

Any investor who fails to comply with the requirement to make a declaration under Section 187C may be liable for a fine up to Rs. 1,000 for each day such failure continues. Additionally, if we fail to comply with the provisions of Section 187C, then we may be liable for a fine of up to Rs. 100 for each day the default continues.

**Audit and Annual Report**

A public limited company's audited financial statements, the directors' report and the auditors' report must be approved at the annual general meeting. These documents also include certain other financial information, a report on corporate governance and a section on management's discussion and analysis. These documents need to be made available for inspection at the company's registered office during normal working hours for 21 days prior to the annual general meeting.

Under the Indian Companies Act, a company must file the above documents with the Registrar of Companies within six months from the close of the accounting year or within 30 days after the date of the annual general meeting, whichever is earlier. Under the listing agreement, copies of the statutory and directors' annual reports, balance sheets and profit and loss accounts and other special reports are required to be sent to the stock exchanges as soon as they are issued. A company is also required to file with the stock exchanges a compliance report on a quarterly basis, within 21 days from the end of the quarter incorporating, *inter alia*, the shareholding pattern. The listing agreement also requires companies to furnish to the stock exchange unaudited quarterly and semi-annual financial results of operations and publish such information in at least one English language newspaper.

**Liquidation Rights**

Subject to the rights of creditors, employees and the holders of any shares entitled by their terms to preferential repayment over the equity shares, if any, in the event of our winding-up, the holders of the equity shares are entitled to be repaid the amount of paid up capital or credited as paid up on those equity shares. All surplus assets after payments to the employees, statutory creditors, secured and unsecured creditors and holders of any preference shares shall be paid to holders of equity shares in proportion to the amount paid up on such shares at the commencement of the winding-up.

**Buy-back**

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

Pursuant to Section 77A of the Indian Companies Act and the SEBI (Buy Back of Securities) Regulations, 1998, as amended, a listed company may buy its equity shares out of its free reserves or securities premium account or the proceeds of any fresh issue of equity shares or other specified securities if so authorized by the articles of association. No buy-back of any kind of shares or other specified securities can be made out of the proceeds of an earlier issue of the same kind of securities. If such buy-back constitutes more than 10% of the total paid-up equity capital and free reserves of the company, it shall require the approval of at least 75% of the shareholders present and voting at a general meeting of shareholders of such company. A board resolution will constitute sufficient corporate authorization for a buy-back within the above limit. A company may buy-back up to 25% of its paid-up equity capital and free reserves provided that the buy-back of equity shares in any financial year shall not exceed 25% of the paid-up equity capital of a company in that financial year.

A company is not permitted to make any further issue (including a rights issue) of the same kind of shares or other specified securities within a period of six months of such buy-back, except by way of a bonus issue or in discharge of its existing obligations such as conversion of warrants, stock option schemes, sweat equity or conversion of preference shares or debentures into equity.

The buy-back may be (a) from the existing security holders on a proportionate basis through a tender offer; (b) from the open market through (i) a book-building process or (ii) the stock exchange; (c) from odd-lot holders or (d) by purchasing the securities issued to the employees pursuant to a stock option plan or similar scheme. Buy-backs through negotiated deals, whether on a stock exchange or through spot transactions or through any other private arrangements, are not permitted.

Any ADS holder may participate in a company's purchase of its own shares by withdrawing its ADSs from the depository facility, acquiring equity shares upon the withdrawal and selling such shares back to the company. We cannot guarantee that equity shares offered by an ADS investor in any buy-back of shares by us will be accepted by us. The regulatory approvals required for ADS holders to participate in a buy-back are not entirely clear, and ADS investors are advised to consult their legal advisors prior to participating in any buy-back of shares by us, including advice related to any related regulatory approvals and tax issues.

Table of Contents

**Alteration of Shareholder Rights**

Under the Indian Companies Act, and subject to the provisions of the articles of association of a company and the relevant rules as issued by the Department of Company Affairs, the rights of any class of shareholders can be altered or varied (i) with the consent in writing of the holders of not less than three-fourths of the issued shares of that class; or (ii) by the special resolution passed at a separate meeting of the holders of the issued shares of that class. In the absence of any such provision in the articles, such alteration or variation is permitted as long as it is not prohibited by the agreement governing the issue of the shares of that class. Under the Indian Companies Act, the articles may be amended by a special resolution of the shareholders.

Our Articles can be amended if shareholders holding not less than 75% of the equity shares (who are entitled to vote) cast votes in favor of each such amendment of the Articles and which shall include the favorable votes of each of the AKP Group, the GKP Group, the NKP Group and General Atlantic, so long as each of the respective groups hold at least 10% of the equity shares and vote on each amendment(s).

**Limitation on the Rights to Own Securities**

The limitation on the rights to own securities of Indian companies, including the rights of non-resident or foreign shareholders to hold securities, are discussed below in Item 10.D. Additional Information Exchange Controls .

**Takeover Code**

The Takeover Code, prescribes certain thresholds of securities ownership or trigger points that give rise to certain obligations thereunder. The Takeover Code requires disclosure of the aggregate shareholding or voting rights in a listed company by any acquirer who acquires shares or voting rights which (taken together with shares or voting rights, if any, already held by such acquirer) entitle him to more than 5%, 10%, 14%, 54% or 74% of the shares or voting rights in that company.

The SEBI has amended the Takeover Code to make it mandatory for the promoters and promoter group of listed companies to disclose the creation and enforcement of a pledge on the equity shares held by such persons.

The Takeover Code also requires (unless specifically exempted) the making of an open offer to acquire an additional 20% of the voting capital of a company in the following circumstances:

(a) any acquirer, who together with persons acting in concert with such acquirer, acquires or agrees to acquire 15% or more of the equity shares or voting rights in the company;

(b) any acquirer who, together with persons acting in concert with such acquirer, has acquired 15% or more, but less than 55%, of the equity shares or voting rights in the shares of the company and who acquires additional shares or voting rights entitling such acquirer to exercise more than 5% of the voting rights (the post acquisition shareholding of such acquirer together with persons acting in concert not exceeding 55%) in any financial year ending March 31;

(c) any acquirer who, together with persons acting in concert with such acquirer, has acquired 55% or more, but less than 75%, of the shares or voting rights in the shares of the company (or, where the company concerned had obtained the initial listing of its shares by making an offer of at least 10% of the issue size to the public pursuant to Rule 19(2)(b) of the SCRR, less than 90% of the shares or voting rights in the company) and who acquires any additional shares entitling him to exercise voting rights; provided that an acquirer together with persons acting in concert may acquire additional shares or voting rights entitling him to up to 5% voting rights in a company without making a public announcement if (i) the acquisition is made through open market purchase on the stock exchanges or the increase in the shareholding or voting rights of the acquirer is pursuant to a buy back of shares by the target company and (ii) the post acquisition shareholding of the acquirer and persons acting in concert does not exceed 75%.

(d) any acquirer who, together with persons acting in concert with such acquirer, holds 55% or more, but less than 75%, of the shares or voting rights of the company (or, where the company concerned had obtained the initial listing of its shares by making an offer of at least 10% of the issue size to the public pursuant to Rule 19(2)(b) of the SCRR, less than 90% of the shares or voting rights in the company), intends to consolidate its holdings while ensuring that the public shareholding in the target company does not fall below the minimum level permitted by the listing agreement with the stock exchanges; or

(e) any acquirer who acquires control over the company (directly or indirectly), irrespective of whether there has been any acquisition of shares or voting rights in the company.

However, in the event a public offer is made pursuant to paragraph (d) above, the minimum size of the public offer to acquire the voting capital of the target company is required to be the lesser of (i) 20% of the voting capital of the company; or (ii) such other lesser percentage of the voting capital of the company as would, assuming full subscription of the offer, enable the acquirer, together with persons acting in concert with him, to increase his holding to the maximum level possible, which is consistent with the target company meeting the requirements of minimum public shareholding as set forth in the listing agreement.

Table of Contents

Further, if the acquisition of voting capital of a target company made by an acquirer pursuant to a public offer results in the public shareholding in the target company being reduced below the minimum level required in the listing agreements with the stock exchanges for the purpose of continuous listing, the acquirer is required to take necessary steps to facilitate compliance of the target company with the relevant provisions of the listing agreement within the time period mentioned in the listing agreements.

The Takeover Code sets out the contents of the required public announcements as well as the minimum offer price. The minimum offer price depends on whether the shares of the company are frequently or infrequently traded (as defined in the Takeover Code). In case the shares of the company are frequently traded, the offer price shall be the higher of:

- the negotiated price under the agreement for the acquisition of shares in the company;
  
- the highest price paid by the acquirer or persons acting in concert with him for any acquisitions, including through an allotment in a public, preferential or rights issue, during the 26-week period prior to the date of public announcement; and
  
- the average of the weekly high and low of the closing prices of the shares of the company quoted on the stock exchange where the shares of the company are most frequently traded during the 26-week period prior to the date of public announcement, or the average of the daily high and low of the prices of the shares as quoted on the stock exchange where the shares of the company are most frequently traded during the two weeks preceding the date of public announcement, whichever is higher.

Specific obligations of the acquirer and the Board of Directors of the target company in the offer process have also been specified. Acquirers making a public offer also must deposit in an escrow account a percentage of the total consideration payable under the public offer, which will be forfeited in the event that the acquirer does not fulfill its obligations.

The Takeover Code, subject to certain conditions specified in the Takeover Code, exempts certain specified acquisitions from the requirement of making a public offer, including, among others, the acquisition of shares (1) by allotment in a public issue or a rights issue; (2) by underwriters pursuant to an underwriting agreement; (3) by registered stockbrokers in the ordinary course of business on behalf of clients; (4) in unlisted companies; (5) pursuant to a scheme of reconstruction or amalgamation; (6) pursuant to a scheme under Section 18 of the Sick Industrial Companies (Special Provisions) Act, 1985; (7) resulting from, inter se transfers between companies belonging to the same group of companies as defined in the Monopolies and Restrictive Trade Practices Act, 1969, as amended or between relatives or between qualifying promoters of a publicly listed company or between qualifying Indian promoters and foreign collaborators who are shareholders; (8) by way of transmission through inheritance or succession; (9) resulting from transfers by Indian venture capital funds or foreign venture capital investors registered with SEBI, to promoters of a venture capital undertaking or venture capital undertaking pursuant to an agreement between such venture capital funds or foreign venture capital investors with such promoters or venture capital undertaking; (10) by the Government controlled companies, unless such acquisition is made pursuant to a disinvestment process undertaken by the Government or a state government; (11) change in control by takeover/restoration of the management of the borrower company by the secured creditor in terms of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002; (12) acquisition of shares by a person in exchange of equity shares received under a public offer made under the Takeover Code; and (13) in terms of guidelines and regulations relating to delisting of securities as specified by SEBI. The Takeover Code does not apply to acquisitions in the ordinary course of business by public financial institutions either on their own account or as a pledgee. An application may also be filed with the takeover panel seeking exception from the open offer requirements of the Takeover Code. Pursuant to an amendment, a listed company can apply to the SEBI to waive requirements under the Takeover Code in relation to an acquisition of a listed company in circumstances where the board of the listed company has been taken over by the Government of India and

there is a plan for a transparent and competitive process for the operations of the listed company.

In addition, the provisions of the Takeover Code relating to making of a public offer do not apply to the acquisition of American Depository Receipts or Global Depository Receipts unless the holder thereof is entitled to exercise voting rights on the underlying shares or such American Depository Receipts or Global Depository Receipts are exchanged for shares carrying voting rights. In case the acquisition of American Depository Receipts or Global Depository Receipts entitles then holder thereof to exercise voting rights in excess of the specified percentages on the underlying shares, the public announcement for the tender offer is required to be made within four working days of acquisition of such depositary receipts.

#### **Provisions on Changes in Capital**

Our authorized capital can be altered by an ordinary resolution of the shareholders in a general meeting. The additional issue of equity shares is subject to the pre-emptive rights of the shareholders. In addition, a company may increase its share capital, consolidate its share capital into shares of larger face value than its existing shares or sub-divided its shares by reducing their par value, subject to an ordinary resolution of the shareholders in a general meeting.

Table of Contents

**Discriminatory Provisions in the Articles**

Other than as stated herein, there are no provisions in our Articles discriminating against any existing or prospective shareholder as a result of such shareholder owning a substantial number of shares.

**10.C. Material Contracts**

Other than described elsewhere in the document herein, we have not entered into any material contracts in the two years preceding the date of this Annual Report, other than contracts entered into in the ordinary course of business.

**10.D. Exchange Controls**

The subscription, purchase and sale of shares of an Indian company are governed by various Indian laws restricting the issuance of shares by the company to non-residents or subsequent transfer of shares by or to non-residents. These restrictions have been relaxed in recent years. Set forth below is a summary of various forms of investment, and the restrictions applicable to each, including the requirements under Indian law applicable to the issue of ADSs.

**Foreign Direct Investment**

*Issues by the Company*

Over a period of time, the Government of India has relaxed the restrictions on foreign investment. Subject to certain conditions, under current regulations, foreign direct investment in most industry sectors does not require prior approval of the Foreign Investment Promotion Board or the Reserve Bank of India, if the percentage of equity holding by all foreign investors does not exceed specified industry-specific thresholds. These conditions include certain minimum pricing requirements and ownership restrictions based on the nature of the foreign investor. Purchases by foreign investors of ADSs are treated as direct foreign investment in the equity issued by Indian companies for such offerings. Foreign investment of up to 100% of our share capital is currently permitted in the IT industry.

*Subsequent Transfers*

Restrictions for subsequent transfers of shares of Indian companies between residents and non-residents were relaxed significantly as of October 2004. The RBI has granted general permission to persons resident outside India to transfer shares and convertible debentures held by



them to an Indian resident, subject to compliance with certain terms and conditions and reporting requirements. As a result, for a transfer between a resident and a non-resident of securities of an Indian company in the IT sector, such as ours, no prior approval of either the RBI or the Government of India is required, as long as certain conditions are met. These conditions include compliance, as applicable, with pricing guidelines, the Takeover Code, and the ownership restrictions based on the nature of the foreign investor..

Transfers between two non-residents by way of sale or gifts are not subject to RBI approvals or pricing restrictions.

#### *Calculation of Total Foreign Investment in Indian Companies*

In 2009, the Indian Government issued two press notes setting out guidelines for foreign investment in India. Press Note 2 of 2009 prescribes the guidelines for the calculation of total foreign investment (direct and indirect) in Indian companies. Press Note 3 of 2009 prescribes the transfer of ownership or control of Indian companies in sectors with caps from resident Indian citizens to non-resident entities. Additionally, Press Note 4 of 2009 clarifies the guidelines on downstream investments by Indian companies. These press notes have been consolidated by the Government of India in the FDI Policy issued by the Department of Industrial Policy & Promotion (Circular 2 of 2010) with effect from October 1, 2010. The FDI Policy is expected to be reviewed every six months

#### **Portfolio Investment by Non-Resident Indians**

Investments by persons of Indian nationality or origin residing outside of India, or Non Resident Indians (NRIs), or registered Foreign Institutional Investors, or FIIs, made through a stock exchange are known as portfolio investments, or Portfolio Investments.

NRIs are permitted to make Portfolio Investments on favorable tax and other terms under India's Portfolio Investment Scheme. Under the scheme, an NRI can purchase up to 5% of the paid up share capital of an Indian company, subject to the condition that the aggregate paid up share capital purchased by all NRIs through Portfolio Investments does not exceed 10% of the paid up capital of the company. This limit may be increased up to 24% by passing a special resolution of its members. We have not obtained shareholder approval for an increase in the aforesaid 10% limit. In addition to Portfolio Investments in Indian companies, NRIs may also make foreign direct investments in Indian companies pursuant to the foreign direct investment route discussed above.

Overseas corporate bodies, or OCBs, i.e., entities in which at least 60% is owned by NRIs, were previously permitted to invest on favorable terms under the Portfolio Investment Scheme. With effect from September 16,

Table of Contents

2003, OCBs that have availed benefits are no longer recognized by the RBI as an eligible class of investors in India. Accordingly, such OCBs will not be eligible to subscribe for ADSs.

**Investment by Foreign Institutional Investors**

Currently, FIIs such as pension funds, investment trusts, insurance or reinsurance companies, international or multilateral organizations and asset management companies, are eligible to make Portfolio Investments on favorable terms in all the securities traded on the primary and secondary markets in India. Investment by FIIs in certain sectors is prohibited.

The Securities and Exchange Board of India (Foreign Institutional Investors) Regulations, 1995 provide that no single FII may hold more than 10% of a company's total issued capital in its own name, and where an FII is investing on behalf of a sub-account, the investment on behalf of such sub-account is not permitted to exceed 10% of the total issued capital of the Company.

The total holding in an Indian company of all FIIs together with their sub-accounts is subject to a cap of 24% of the total issued capital of the company, which may be increased up to the percentage of sectoral cap on FDI in respect of the said company pursuant to a resolution of the Board of Directors of the company and the approval of the shareholders of the company by a special resolution. For arriving at the ceiling on holdings of FIIs, investments made by FIIs through ADRs are not included. We have not obtained shareholder approval for an increase in the aforesaid 24% limit.

There is uncertainty under Indian law about the tax regime applicable to FIIs that hold and trade ADSs. FIIs are urged to consult with their Indian legal and tax advisers about the relationship between the FII guidelines and the ADSs and any equity shares withdrawn upon surrender of the ADSs.

**ADSs**

*Issue of ADSs*

Subject to the fulfillment of certain conditions, including compliance with the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993 as amended from time to time, or the 1993 Regulations, Indian companies issuing ADSs are not required to obtain the prior approval of the Ministry of Finance or the Reserve Bank of India (RBI), except in certain cases. An Indian company issuing ADSs must comply with certain reporting requirements specified by the RBI.

The Government of India has amended the 1993 Regulations to provide a pricing floor for Global Depository Receipt (which includes ADSs) and Foreign Currency Convertible Bond issues. Under the revised regulations, the offer price of the GDSs/ADSs cannot be less than the average

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

of the weekly high and low of the closing prices of the shares as quoted on the BSE or the NSE during the two weeks immediately preceding the date of the meeting of the board of directors (or a duly authorized committee of the board) that decides to open the proposed issue.

### *Fungibility of ADSs*

As per the directions issued by the RBI on the two-way fungibility of ADSs, a person resident outside India is permitted to purchase, through a registered stock broker in India, shares of an Indian company for the purposes of converting the same into ADSs, subject, *inter alia*, to the following conditions:

- the shares of the Indian company are purchased on a recognized stock exchange in India;
- the shares of the Indian company are purchased on a recognized stock exchange with the permission of the domestic custodian for the ADSs issued by the Indian company and such shares are deposited with the custodian after purchase;
- the Indian company has authorized the custodian to accept shares from non-resident investors for reissuance of ADSs;
- the number of shares of the Indian company so purchased does not exceed the ADSs converted into underlying shares and shall be subject to sectoral caps, as applicable; and
- compliance with the provisions of the 1993 Regulations.

### *Sponsored ADS Facilities*

By notification dated November 23, 2002, the RBI has permitted existing shareholders of Indian companies to sell their shares through the issue of ADSs against the block of existing shares of an Indian company, subject to the following conditions:

- the facility to sell the shares will be available *pari passu* to all categories of shareholders;
- the sponsoring company whose shareholders propose to divest existing shares in the overseas market through the issue of ADSs will give an option to all its shareholders indicating the number of shares to be divested and the mechanism of determining the price under the applicable ADS norms. If the shares offered for divestment are more than the pre-specified number to be divested, shares would be accepted from the existing shareholders in proportion to their existing shareholdings;
- the proposal for divestment of the shares will have to be approved by a special resolution of the shareholders of the Indian company in a general meeting;

Table of Contents

- the proceeds of the ADS issue raised abroad shall be repatriated to India within a period of one month from the closing of the issue. However, the proceeds of the ADS offering can also be retained abroad to meet the future foreign exchange requirements of the company; and
- the issue-related expenses in relation to the public issue of ADSs under this scheme will be subject to a ceiling for public issues and private placements of GDSs/ ADSs. Issue-related expenses will include underwriting commissions and charges, legal expenses and reimbursable expenses. Issue-related expenses shall be passed on to shareholders participating in the sponsored issue on a pro-rata basis. Issue-related expenses beyond the ceiling will require the approval of the RBI.

The issuer is also required to furnish a report to the RBI specifying the details of the offering, including the amount raised through the offering, the number of ADSs issued, the underlying shares offered, the percentage of foreign equity in the issuer represented by the ADSs, details of issue parameters and details of repatriation within 30 days of such issue.

*Transfer of ADSs and Surrender of ADSs*

A person resident outside India may transfer the ADSs held in Indian companies to another person resident outside India without prior approval of Government of India or the RBI. Other than mutual funds that may purchase ADSs subject to terms and conditions specified by the RBI, a person resident in India is not permitted to hold ADSs of an Indian company, except in connection with the exercise of stock options. An ADS holder is permitted to surrender the ADSs held by him in an Indian company and to receive the underlying equity shares under the terms of the deposit agreement.

**10.E. Taxation**

**Indian Taxation**

*General*

The following summary is not intended to constitute a complete analysis of the individual tax consequences to non-resident holders or employees under Indian law for the acquisition, ownership and sale of ADSs and equity shares. This summary is based on the law and practice of the Indian Income-tax Act, 1961, or Income-Tax Act, including the special tax regime contained in Sections 115AC and 115ACA of the Income-tax Act read with the 1993 Regulations. The Income-tax Act is amended every year by the Finance Act of the relevant year. Some or all of the tax consequences of Sections 115AC and 115ACA may be amended or changed by future amendments to the Income-tax Act.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN TAX ADVISORS WITH RESPECT TO INDIAN AND LOCAL TAX CONSEQUENCES OF ACQUIRING, OWNING OR DISPOSING OF EQUITY SHARES OR ADSs.

*Levy of Income Tax*

In India, tax is charged on the basis of the residential status of a person (under terms of the provisions of the Indian Income Tax Act) on his/her total income in the previous year, at the rates as specified in the Finance Act as applicable in the relevant assessment year. A period of 12 months commencing on the first day of April every year is referred to as an Assessment Year. Generally, the Previous Year means the financial year immediately preceding the Assessment Year. Tax is paid in the Assessment Year on income earned in the Previous Year. In general, in the case of a person who is resident in India in a previous year, his/her global income is subject to tax in India. In the case of a person who is non-resident in India, only the income that is received or deemed to be received in India or the income that accrues or arises or is deemed to accrue or arise to such person in India is subject to tax in India. In the case of a person who is not ordinarily resident in India, the income chargeable to tax is the same as persons who are resident and ordinarily resident except that the income which accrues or arises outside India is not included in his total income unless it is derived from a business controlled from India.

*Residence*

For purposes of the Income-tax Act, an individual is considered to be a resident of India during any previous year if he or she is in India in that year for:

182 days or more in a previous year

OR

60 days or more in that previous year if the person has been present in India for 365 days or more in the preceding four years.

However, where the person concerned is a person of Indian origin, or a person who has left India for employment outside India, the person will be considered a resident of India only when present in India for a period of 182 days in the previous year, even though the person has been present in India for 365 days or more in the preceding four years.

An Individual would be considered not ordinarily resident if he / she is resident in India in a particular Previous Year but has been a non-resident in India for a period of 9 out of 10 years before that year, OR has been present in India for 729 days or less in the 7 years previous to that year.

Table of Contents

A company is a resident of India if it is incorporated in India or the control and the management of its affairs is situated wholly in India. Individuals and companies that are not residents of India would be treated as non-residents for purposes of the Income-tax Act.

*Taxation of Distributions*

Currently dividend income is exempt from tax for all shareholders (whether resident in India or not). However, the company declaring/distributing dividends is required to pay, in addition to corporate tax, a tax on dividends distributed, called dividend distribution tax at the rate of 16.6% including a surcharge of 7.5% on the total amounts distributed as dividend and an education and a Higher education cess at the rate of 2% and 1%, respectively of such tax and surcharge.

Any distributions of additional ADSs or equity shares to resident or non-resident holders will not be subject to Indian tax.

*Taxation of Capital Gains*

The following is a brief summary of capital gains taxation of non-resident holders and resident employees relating to the sale of ADSs and equity shares received upon conversion of ADSs. The relevant provisions are contained mainly in sections 45, 47(vii)(a), 115AC and 115ACA, of the Income-tax Act, in conjunction with the Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme.

Under the Income-tax Act, capital gains can be of two types, long term capital gain or short term capital gain. Normally, gains arising on the sale of capital assets held for more than 36 months are considered long term capital gains and gains arising on the sale of capital assets held for 36 months or less, are considered short term capital gains. However, gains arising from the sale of a capital asset, being shares held in a company for more than 12 months (measured from the date of advice by a depository to a Custodian of the delivery of the shares in exchange for ADS) are considered long term capital gains. Gains arising from the sale of shares held for a period of twelve months or less are considered as short term capital gains.

Capital gains are taxed as follows:

- Gains from a sale of ADSs outside India, by a non-resident to another non-resident are not taxable in India.
- Conversion of the ADS into the underlying shares is not taxable in India.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

Pursuant to Section 115AC of the Income-tax Act read with the provisions of the 1993 Regulations, long term capital gains realized on sale of ADSs (not covered above) will be subject to tax at the rate of 10% excluding the applicable general surcharge and education surcharge. Where the beneficial holder of the ADS is an individual the tax shall be increased by education cess of 2% and Higher education cess 1% on tax and general surcharge. Where the beneficial holder is a non-resident company, the above amount of tax shall be increased by a 2.5% general surcharge and 2% and 1% education cess and Higher education cess respectively. This tax is levied in India by withholding the tax at the above rates.

Any income arising from the transfer of equity shares held as long term capital asset that is subject to securities transaction tax, which is effective from October 1, 2004, shall be exempt from long term capital gains tax. Any income arising from the transfer of equity shares held as a short term capital asset, that is subject to securities transaction tax (effective from October 1, 2004), shall be taxed at a rate of 15 % (effective April 1, 2008) plus a 2.5% surcharge in case of foreign companies, and an additional 2% and 1% education cess and Higher education cess respectively on tax and surcharge amount.

The aforesaid tax rates with respect to capital gains may be reduced as per the provisions of the double tax avoidance agreements that India has signed with the home jurisdictions of the non-resident holders.

### ***Taxation of Business Income***

The income from the transfer of shares held in an Indian company may be characterized as trading income, on the basis of various factors, including the purpose of the holding by the investor, period of holding, the manner and method of investment and transfer, etc. Where shares are held under an employee stock option scheme, it is unlikely that the income from transfer of these shares will be characterized as trading income.

Where the income is classified as trading or business income, and is found liable to tax in India, non-resident companies will be taxed in India on the net income at the rate of 40% increased by 2.5% surcharge and 2% and 1% education and Higher education cess respectively. Further, MAT will apply in such cases. Non-residents other than companies or residents will be taxed at 30% increased by 2% and 1% education and Higher education cess respectively, on trading or business income.

### ***Minimum Alternate Tax (MAT)***

Pursuant to the changes introduced by the Finance Bill, 2009, the corporate shareholders may be subject to a Minimum Alternate Tax ( MAT ). As per Finance Act, 2010, if the tax payable by any company (including a foreign company) is less than 18 % of its book profits, it will be required to pay MAT which will be deemed to be 19.93% of such book profits.

Table of Contents

Further, the provisions of MAT will also be applicable to corporates from the tax year beginning April 1, 2007 claiming deduction under section 10A and 10B of the Indian Income Tax Act. (which mainly includes IT companies) and based on the provisions, corporates will be liable to pay MAT as per Finance Act, 2010 at the rate of 19.93% (including a surcharge of 7.5% and an education cess and a Higher education cess at the rate of 2% and 1%, respectively of such tax and surcharge) or tax computed as per normal provisions, whichever is higher.

***Securities Transaction Tax***

The Finance Act, 2004 has introduced certain new provisions with regard to taxes on the sale and purchase of securities, including equity shares. On and after October 1, 2004, in respect of a sale and purchase of equity shares entered into on a recognized stock exchange, (i) both the buyer and seller are required to pay each a Securities Transaction Tax, or STT at the rate of 0.125% of the transaction value of the securities, if a transaction is a delivery based transaction i.e. the transaction involves actual delivery or transfer of shares; (ii) the seller of the shares is required to pay a STT at the rate of 0.025% of the transaction value of the securities, if the transaction is a non-delivery based transaction, i.e. a transaction settled without taking delivery of the shares. Effective from April 1 2008 STT with respect to a sale and purchase of a derivative in a recognized stock exchange as follows: (i) in case of sale of an option in securities, the seller is required to pay an STT at the rate of 0.017% of the option premium; (ii) in case of a sale of an option in securities, where the option is exercised, the buyer is required to pay a STT at the rate of 0.125% of the settlement price; and (iii) in case of sale of futures in securities, the seller is required to pay STT at 0.017%. The STT can be set-off against business income tax, in accordance with the provisions of the Income-tax Act, provided the gains on the transactions are taxed as business income and not as capital gains.

***Mode of Computation of Capital Gain***

Capital gains tax is computed by applying the appropriate tax rate on the difference between the sale price and the purchase price of the capital asset. For the purpose of determining the amount of capital gains arising from the sale of shares, converted on surrender of the ADS, the cost of acquisition of such shares shall be prevailing price of shares at the Indian Stock Exchanges, on the date on which the depository advises the Custodian of the release of such shares on such surrender of the ADS and not the acquisition cost of the ADS being exchanged. According to the 1993 Regulations, a non-resident holder's holding period for the purpose of determining the applicable Indian capital gains tax rate relating to equity shares received in exchange for ADSs commences on the date of the notice of the redemption by the Depository to the custodian. However, the 1993 Regulations does not address this issue in the case of resident employees, and it is therefore unclear as to when the holding period for the purposes of determining capital gains tax commences for such a resident employee.

The 1993 Regulations provides that if the equity shares are sold on a recognized stock exchange in India against payment in Indian rupees, they will no longer be eligible for preferential tax treatment. It is unclear as to whether section 115AC and the 1993 Regulations are applicable to a non-resident who acquires equity shares outside India from a non-resident holder of equity shares after receipt of the equity shares upon conversion of the ADSs. It is unclear as to whether capital gains derived from the sale of subscription rights or other rights by a non-resident holder not entitled to an exemption under a tax treaty will be subject to Indian capital gains tax. If such subscription rights or other rights are deemed by the Indian tax authorities to be situated within India, the gains realized on the sale of such subscription rights or other rights will be subject to Indian taxation. The capital gains realized on the sale of such subscription rights or other rights, which will generally be in the nature of short term capital gains, will be subject to tax at variable rates with a maximum rate of 40% excluding the applicable general surcharge of 2.5% and education of 2% and Higher education cess of 1% in case of a foreign company, and 30%, excluding the applicable general surcharge and education and Higher education cess, in case of resident and non-resident employees at the applicable slab rate (10%, 20% or 30%, as the case may be) plus 2% and 1% education and Higher education cess respectively on tax and general surcharge. In case of persons other than individuals and companies, the rate of tax would be 30% and increased by a 2% and 1% education and Higher education cess respectively.



*Withholding tax on capital gains*

Any taxable gain realized by a non-resident on the sale of ADSs or equity shares is to be withheld at the source by the buyer. However, as per the provisions of section 196D(2) of the Income-tax Act, no withholding tax is required to be deducted from any income by way of capital gains arising to Foreign Institutional Investors as defined in section 115AD of the Income-tax Act on the transfer of securities defined therein, where the investment is made under the FII regime.

*Buy-back of securities*

Indian companies are not subject to any tax on the buy-back of their shares from its shareholders in accordance with the provisions of Section 77A of the Indian Companies Act, 1956. However, the shareholders will be taxed on any resulting gains. We would be required to deduct tax at source according to the capital gains tax liability of a non-resident shareholder.

*Stamp Duty and Transfer Tax*

Upon issuance of the equity shares underlying our ADSs, we will be required to pay a stamp duty of 0.1% per share of the issue price of the underlying equity shares. A transfer of ADSs is not subject to Indian stamp

Table of Contents

duty. However, in the event that a holder of ADS wishes to enforce its rights under the ADS, and bring the instrument into India for this purpose, the holder of ADS may be required to pay stamp duty on the ADS at the applicable rate. Shares must be traded in dematerialized form and the transfer of shares in dematerialized form is currently not subject to stamp duty.

*Wealth Tax*

The holding of the ADSs and the holding of underlying equity shares by resident and non-resident holders is not subject to Indian wealth tax. Non-resident holders are advised to consult their own tax advisors regarding this issue.

*Gift Tax and Estate Duty*

Currently, there are no gift taxes or estate duties applicable to the gifting or inheritance of ADSs or equity shares. Shares/ADS gifted to the donee by his relative and for values less than Rs 50,000 from non-relatives are not taxable. In all other cases, the fair market value of such shares/ADS in excess of Rs 50,000 would be subject to tax at applicable rates as other income. However, these taxes and duties could be restored in the future. Non-resident holders are advised to consult their own tax advisors regarding this issue.

*Service tax*

Brokerage or commission paid to stock brokers in connection with the sale or purchase of shares is subject to a service tax of 10%, plus education cess of 2% and Higher education cess of 1% on tax. The stock broker is responsible for collecting the service tax from the shareholder and paying it to the government account.

**U.S. Federal Income Tax Considerations**

The following is a discussion of certain material U.S. Federal income tax consequences to U.S holders (defined below) of purchasing, owning and disposing of equity shares and ADSs. This discussion does not purport to be a comprehensive description of all of the U.S. tax considerations that may be relevant to a particular person's decision to acquire the equity shares or ADSs including any state, local or non-U.S. tax consequences of the ownership of the equity shares or ADSs.

EACH HOLDER OF ADSs SHOULD CONSULT HIS OR HER OWN TAX ADVISOR CONCERNING THE U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF PURCHASING, OWNING AND DISPOSING OF EQUITY SHARES AND ADSs IN HIS OR HER PARTICULAR SITUATION.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

This discussion applies to only to those investors that hold equity shares or ADSs as capital assets for U.S. tax purposes (generally, for investment). This section does not apply to holders that may be subject to special tax rules, including but not limited to:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a bank, insurance company or other financial institution;
- a regulated investment company or real estate investment trust;
- a tax-exempt organization;
- a holder liable for alternative minimum tax;
- a holder that actually or constructively owns 10% or more by voting power or value of our stock;
- a holder that holds equity shares or ADSs as part of a straddle, hedging or conversion transaction;
- a U.S. holder whose functional currency is not the U.S. Dollar;
- a U.S. expatriate;
- a holder that purchases or otherwise acquires equity shares or ADSs other than through this offering; or
- a holder that acquired equity shares or ADSs pursuant to the exercise of any employee share option or otherwise as compensation

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

This section is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, its legislative history, existing and proposed U.S. Treasury regulations, published rulings and other administrative guidance of the U.S. Internal Revenue Service and court decisions, all as in effect on the date hereof. These laws are subject to change or different interpretation by the U.S. Internal Revenue Service or a court, possibly on a retroactive basis.

You are a U.S. holder if you are a beneficial owner of equity shares or ADSs and you are:

- a citizen or resident individual of the United States;

Table of Contents

- a U.S. domestic corporation, or other entity treated as a domestic corporation for U.S. Federal income tax purposes;
- an estate whose income is subject to U.S. Federal income tax regardless of its source; or
- a trust if a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust.

In addition, this discussion is limited to U.S. holders who are not resident in India for purposes of the DTAT between the United States and India.

If a partnership (including for this purpose any entity treated as a partnership for U.S. tax purposes) is a beneficial owner of the equity shares or ADSs, the U.S. tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. A holder of the equity shares or ADSs that is a partnership and partners in such a partnership should consult their own tax advisors about the U.S. Federal income tax consequences of holding and disposing of the equity shares or ADSs.

A non-U.S. holder is a beneficial owner of equity shares or ADSs that is not a U.S. person for U.S. Federal income tax purposes.

For U.S. Federal income tax purposes, holders of ADSs will be treated as the owners of equity shares represented by such ADSs. Accordingly, no gain or loss will be recognized upon the exchange of an ADS for equity shares. A U.S. holder's tax basis in the equity shares will be the same as the tax basis in the ADS surrendered, and the holding period in the equity shares will include the period during which the holder held the surrendered ADS.

We believe that we will not be a passive foreign investment company, or PFIC, for U.S. Federal income tax purposes for the current taxable year. However, we cannot assure you that we will not be considered a PFIC in the current or future years. The determination whether or not we are a PFIC is a factual determination that is based on the types of income we earn and the value of our assets and cannot be made until the close of the applicable tax year. If we were currently or were to become a PFIC, U.S. holders of equity shares or ADSs would be subject to special rules and a variety of potentially adverse tax consequences under the Code.

*Taxation of Dividends*

Subject to the PFIC rules referred to below, under the U.S. Federal income tax laws, if you are a U.S. holder, you must include in your gross income the gross amount of any dividend paid by us out of our current or accumulated earnings and profits (as determined for U.S. Federal income tax purposes). You must include the amount of any Indian tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is ordinary income that you must include in income when you receive the dividend, actually or

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

constructively. Dividends received by an individual taxpayer during taxable years beginning before January 1, 2013 will be taxed at a maximum rate of 15%, where certain holding period and other requirements are satisfied, if such dividends constitute qualified dividend income. Qualified dividend income includes dividends paid by a Qualified Foreign Corporation, and we believe that we are, and will continue to be, a Qualified Foreign Corporation. Holders of ADSs and equity shares should consult their own tax advisors regarding the availability of the reduced dividend tax rate in light of their own particular circumstances. Dividends will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations.

The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. Dollar value of the Indian rupee payments made, determined at the spot Indian rupee/U.S. Dollar exchange rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. Dollars. If the foreign currency received as a dividend is not converted into U.S. dollars on the date of receipt, a U.S. holder will have a basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. Dollars will be treated as ordinary income or loss. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. If we distribute non-cash property as a dividend, you generally will include in income an amount equal to the fair market value of the property, in U.S. Dollars, on the date that it is distributed. Subject to certain limitations, a U.S. holder may be entitled to a credit or deduction against its U.S. Federal income taxes for the amount of any Indian taxes that are withheld from dividend distributions made to such U.S. holders. The decision to claim either a credit or deduction must be made annually, and will apply to all foreign taxes paid by the U.S. holder to any foreign country or U.S. possession with respect to the applicable tax year.

Dividends paid on equity shares or ADSs will generally be treated as foreign source income for U.S. foreign tax credit purposes under special U.S. Federal income tax rules, subject to various classifications and other limitations. The rules relating to computing foreign tax credits are complex. You should consult your own tax advisor to determine the foreign tax credit implications of owning equity shares or ADSs.

Distributions in excess of current and accumulated earnings and profits, as determined for U.S. Federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the equity shares and ADSs and thereafter as capital gain.

Table of Contents

*Taxation of Capital Gains*

Subject to the PFIC rules referred to below, if you are a U.S. holder and you sell or otherwise dispose of your equity shares or ADSs, you will recognize capital gain or loss for U.S. Federal income tax purposes equal to the difference between the U.S. Dollar value of the amount that you realize and your tax basis, determined in U.S. Dollars, in your equity shares or ADSs. Prior to January 1, 2013, capital gains of a non-corporate U.S. holder are generally taxed at a maximum rate of 15% where the property is held for more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes, unless it is attributable to an office or other fixed place of business outside the United States and certain other conditions are met. Your ability to deduct capital losses is subject to limitations.

For cash-basis U.S. holders who receive foreign currency in connection with a sale or other taxable disposition of equity shares or ADSs, the amount realized will be based upon the United States dollar value of the foreign currency received with respect to such equity shares or ADSs as determined on the settlement date of such sale or other taxable disposition.

Accrual-basis U.S. holders may elect the same treatment required of cash-basis taxpayers with respect to a sale or other taxable disposition of equity shares or ADSs, provided that the election is applied consistently from year to year. Such election cannot be changed without the consent of the United States IRS. Accrual-basis U.S. holders that do not elect to be treated as cash-basis taxpayers (pursuant to the Treasury Regulations applicable to foreign currency transactions) for this purpose may have a foreign currency gain or loss for United States Federal income tax purposes because of differences between the United States dollar value of the foreign currency received prevailing on the date of such sale or other taxable disposition and the value prevailing on the date of payment. Any such currency gain or loss will generally be treated as ordinary income or loss that is United States source, in addition to the gain or loss, if any, recognized on the sale or other taxable disposition of equity shares or ADSs.

*PFIC Rules*

We believe that our equity shares and ADSs will not be treated as stock of a PFIC for U.S. Federal income tax purposes for the current tax year. The determination of whether or not we are a PFIC is a factual determination that cannot be made until the close of the applicable tax year and that is based on the types of income we earn and the value of our assets (including goodwill), both of which are subject to change. In calculating goodwill for this purpose, we will value our total assets based on the total market value, determined with reference to the then market price of the equity shares and ADSs, and will make determinations regarding the amount of this value allocable to goodwill. Because the determination of goodwill will be based on the market price of the equity shares and ADSs, it is subject to change. It is possible that the U.S. Internal Revenue Service may challenge our valuation of our assets (including goodwill), which may result in our being classified as a PFIC. Thus, it is possible that we may be or become a PFIC in the current or any future taxable year and we cannot assure you that we will not be considered a PFIC in any such tax year.

In general, if you are a U.S. holder, we will be a PFIC with respect to you if for any taxable year in which you held the equity shares or ADSs:

- at least 75% of our gross income for the taxable year is passive income; or

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

- at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), the excess of gains over losses from certain types of transactions in commodities, annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, as receiving directly its proportionate share of the other corporation's income.

If we are treated as a PFIC, and you are a U.S. holder that did not make a mark-to-market election, as described below, you will be subject to special rules with respect to:

- any gain you realize on the sale or other disposition of your equity shares or ADSs; and
- any excess distribution that we make to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the equity shares or ADSs during the three preceding taxable years or, if shorter, your holding period for the equity shares or ADSs).

Under these rules:

- the gain or excess distribution will be allocated ratably over your holding period for the equity shares and ADSs;
- the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income;



Table of Contents

- the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year; and
- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC.

If you own shares in a PFIC that are treated as marketable stock, you may make a mark-to-market election. If you make this election in a timely fashion, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your equity shares and ADSs at the end of the taxable year over your adjusted basis in your equity shares and ADSs. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your equity shares and ADSs over the fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the equity shares and ADSs will be adjusted to reflect any such income or loss amounts.

We do not intend to furnish you with the information that you would need in order to make a qualified electing fund election to include your share of its income on a current basis.

If you own equity shares or ADSs during any year that we are a PFIC, you must file U.S. Internal Revenue Service Form 8621 that describes the distribution received on the equity shares or ADSs and the gain realized on the disposition of the equity shares or ADSs. The reduced tax rate for dividend income, discussed in *Taxation of Dividends*, is not applicable to dividends paid by a PFIC.

*Information Reporting and Backup Withholding*

In general, information reporting requirements will apply to dividends in respect of equity shares or ADSs or the proceeds received on the sale, exchange or redemption of equity shares or ADSs paid within the United States (and, in certain cases, outside the United States) to U.S. holders other than certain exempt recipients, such as corporations, and backup withholding tax at the rate of 28% may apply to such amounts if the U.S. holder fails to provide an accurate taxpayer identification number (or otherwise establishes, in the manner provided by law, an exemption from backup withholding) or to report dividends required to be shown on the U.S. holder's U.S. Federal income tax returns.

Backup withholding is not an additional income tax, and the amount of any backup withholding from a payment to a U.S. holder will be allowed as credit against the U.S. holder's U.S. Federal income tax liability provided that the appropriate returns are filed.

**10.F. Dividends and paying agents**

Not applicable

**10.G. Statement by experts**

Not applicable

**10.H. Documents on display**

This report and other information filed or to be filed by us can be inspected and copied at prescribed rates at the public reference facilities maintained by the SEC at:

Judiciary Plaza  
100 F Street, N.E.  
Public Reference Room  
Washington, D.C. 20459

The SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system.

Our periodic reports and other information may also be inspected at the offices of the New York Stock Exchange located at 20 Broad Street, New York, New York 10005.

Additionally, documents referred to in this Form 20-F may be inspected at our corporate office which is located at Akruti Softech Park, MIDC Cross Road No. 21, Andheri (E), Mumbai-400 093, India.

**10.I. Subsidiary information**

Not applicable

Table of Contents

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

*General*

Market risk is the loss of future earnings, or reduction in fair value or future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, equity prices and other market changes that affect market risk sensitive instruments. Market risk is attributable to all market sensitive financial instruments including foreign currency receivables and payables.

Our exposure to market risk is a function of our revenue and expense generating activities in foreign currency, the activity of investment in securities and mutual fund units and the results of our hedging strategies for foreign currency exposures. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss.

*Risk Management Procedures*

We manage market risk through treasury operations. Our market risk objectives and policies are approved by our senior management and Board of Directors. The activities of treasury operations include management of cash resources and investment in securities and liquid mutual fund units, implementing hedging strategies for foreign currency exposures, borrowing strategies, and ensuring compliance with market risk limits and policies.

*Components of Market Risk*

*Exchange Rate Risk.* Our exposure to market risk arises principally from exchange rate risk. We transact a major portion of our business in foreign currencies, particularly the U.S. dollar. The exchange rate between the rupee and the dollar has fluctuated substantially in recent years and may continue to remain volatile in the future. The results of our operations can be adversely affected as the rupee fluctuates against the dollar. Our exchange rate risk primarily arises from our foreign currency revenues, receivables, payables and other foreign currency assets and liabilities.

We intend to reduce the effect of exchange rate fluctuations on our operating results by entering into foreign exchange forward and options contracts. As of December 31, 2010 we had outstanding forward contracts in the amount of \$ 314.3 million, JPY 500.0 million (\$ 6.1 million), and GBP 8.7 million (\$ 13.5 million). As of December 31, 2009 we had outstanding forward contracts in the amount of \$ 309.6 million, JPY 875.0 million (\$ 9.5 million), and GBP 2.9 million (\$ 4.8 million) and outstanding currency purchased options in the amount of \$ 10.0 million. These contracts typically mature within 1-29 months, must be settled on the day of maturity and may be cancelled subject to the payment of any gains or losses in the difference between the contract exchange rate and the market exchange rate on the date of cancellation. We use these instruments only for hedging purposes. Despite these contracts we may not be able to insulate ourselves adequately from all foreign exchange currency risks. The policies of the Reserve Bank of India may change from time to time which may limit our ability to hedge our foreign currency exposures adequately. In addition, any such contracts may not perform adequately as a hedging mechanism. We may, in the future,

adopt more active hedging policies.

Based upon a sensitivity analysis of our foreign exchange forward contracts at December 31, 2010, which estimates the fair value of the contracts based upon market exchange rate fluctuations, every Rs 1 increase / decrease in the spot exchange rate of Indian Rupee with U.S. dollar with all other variables held constant would have resulted in a change in the fair value of approximately \$7.0 million of the outstanding contracts..

*Interest Rate Risk.* Our surplus cash resources are typically invested in liquid mutual fund units, units in other debt mutual funds in India, and sweep funds in U.S. These investments are exposed to interest rate risk whereby any increase in interest rates may decrease the fair value of the investments. We attempt to reduce this risk by investing in funds with shorter durations and by adequately diversifying our investments.

*Fair Value.* The fair value of our market rate risk sensitive instruments, other than forward contracts and option contracts, closely approximates their carrying value.

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable

## **PART II**

## **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None

## **ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

### **Modification in the rights of security holders**

During 2008, at the annual general meeting held on June 26, 2008, our shareholders had approved modification/repricing of the terms of options to enable the Company to issue Restricted Stock Units ( RSUs ). Accordingly, the amended plan, i.e., Patni ESOP 2003 (Revised 2008) came into force with effect from June 26, 2008.



Table of Contents

At the annual general meeting held on June 25, 2009, our shareholders approved a resolution by which our Board is authorized on behalf of the Company to issue and allot an additional 8,000,000 equity shares of nominal value of Rs. 2/- (two) each to the permanent employees of the Company (including executive and non-executive directors but excluding the promoter directors) under the Patni ESOP 2003 (Revised 2009) Plan created by the Company for the benefit of the employees, on the terms and conditions as set out in such ESOP Plan.

It was also resolved by our shareholders that options granted to non-executive directors, including independent directors, shall not exceed 150,000 options in a financial year and in aggregate shall not be more than 1,500,000 under the said Patni ESOP 2003 (Revised 2009) Plan.

During 2010 there were no modifications to the rights of the security holders.

**Use of proceeds**

In our initial offering of our ADSs, completed on December 8, 2005, we issued 6,156,250 ADSs, representing 12,312,500 equity shares of Rs. 2 each, to an underwriting syndicate (including the underwriters' over-allotment option of 1,031,250 ADSs representing 2,062,500 equity shares) at an initial offering price of \$ 20.34 per ADS pursuant to a registration statement filed on Form F-1 (File No.333-129771) with the SEC. The managing underwriters were Goldman Sachs (Asia) LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and ABN AMRO Rothschild LLC. We received approximately \$ 117 million in net proceeds from the offering (after adjusting for direct expenses relating to the offering of ADSs of approximately \$ 8.2 million, out of which \$ 7.6 million was paid as underwriting and management consulting fees and \$ 0.6 million was paid for other expenses).

As of December 31, 2010, US \$ 97.8 million had been utilized for capital expenditure for office facilities and the balance \$ 19.2 million remained as cash and cash equivalents pending utilization.

**ITEM 15. CONTROLS AND PROCEDURES**

**Disclosure controls and procedures**

As of the end of the period covered by this Annual Report on Form 20-F, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 31, 2010, to provide reasonable assurance that the information required to be disclosed in filings and submissions under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms, and that material information related to us and our consolidated subsidiaries is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure.

**Management's Report on Internal Controls over Financial Reporting**

*Internal controls over financial reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the U.S. Securities and Exchange Act of 1934, as amended.

The internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Table of Contents

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our Chief Executive Officer and Chief Financial Officer assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in Internal Control-Integrated Framework . This assessment included an evaluation of the design and operation of internal controls over financial reporting. Based on this assessment, the management concluded that, as of December 31, 2010, the Company has maintained effective internal controls over financial reporting.

Our independent registered public accounting firm, KPMG, has issued their report, included herein, on the effectiveness of our internal control over financial reporting as of December 31, 2010.



Table of Contents

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Patni Computer Systems Limited:

We have audited Patni Computer Systems Limited and its subsidiaries (the Company) internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity and comprehensive income/(loss), and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated February 25, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG

Mumbai, India

February 25, 2011

Table of Contents

**Changes in internal control over financial reporting**

During the period covered by this Annual Report, there were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our Audit Committee members are Mr. Pradip Shah (Chairman), Mr. Arun Duggal and Mr. Vimal Bhandari, each of whom is an independent director pursuant to the applicable rules of the Securities Exchange Commission and the NYSE. See Item 6. Directors, Senior Management and Employees for the experience and qualifications of the members of the Audit Committee. Our Board of Directors has determined that Mr. Arun Duggal is an Audit Committee Financial Expert as defined in item 401(h) of Regulation S-K.

**ITEM 16B. CODE OF ETHICS**

We have adopted a code of business ethics applicable to our executive officers, directors and all other employees. We will make available a copy of the code of ethics to any person, without charge, if a written request is made to our Company Secretary at our corporate office at Akruti Softech Park, MIDC Cross Road No.21 Andheri (E), Mumbai 400 093, India. The code is also available on our corporate website, [www.patni.com](http://www.patni.com).

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the fees for professional audit services rendered by KPMG for the audit of the Company's annual financial statements for 2009 and 2010, and fees billed for other services rendered by KPMG.

Fiscal Year Ended December 31,	Audit Fees	Tax Fees (Amounts in \$)	All Other Fees	Total Fees
2009	615,849	258,494	107,704	982,047
2010	667,519	174,309		841,828

**Audit fees**

Audit fees represents fees for professional services in connection with the audit of Company's annual consolidated financial statements and reviews of interim financial statements, report concerning internal control over financial reporting and attestation.

**Tax fees**

Services provided primarily consist of transfer pricing, tax compliance, assistance with tax examinations and corporate tax advisory services.

**All other fees**

Services provided primarily consist of quality review in respect of IT applications of the company and other certifications.

We obtain prior approval of our audit committee in connection with the nature of services that are provided and the fees to be paid for the services.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

We have not sought any exemption from the listing standards for audit committees applicable to us as a foreign private issuer.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASES**

During fiscal 2010 and 2009, there were no purchases made by or on behalf of us or any affiliated purchaser of shares of any class of our securities that are registered pursuant to Section 12 of the U.S. Securities and Exchange Act, 1934, as amended.

Table of Contents

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not Applicable

**ITEM 16G. CORPORATE GOVERNANCE**

Governance Standards for Listed Companies

Many of the corporate governance standards set out in the NYSE Listed Company Manual do not apply to us as a foreign private issuer. Under the NYSE corporate governance standards, we need only (i) establish an independent audit committee that satisfies the requirements of Rule 303A.06 of the NYSE Listed Company Manual described in the following table; (ii) provide prompt certification by our chief executive officer of any material non-compliance with any corporate governance rules of the NYSE; (iii) provide annual written affirmations to the NYSE with respect to our corporate governance practices (and provide interim written affirmations each time a change occurs to the board or any of our committees); and (iv) provide a brief description of significant differences between our corporate governance practices and those followed by U.S. companies listed on the NYSE as required by Rule 303A.11 of the NYSE Listed Company Manual. Indian corporate governance requirements for listed companies are contained in Clause 49 of the listing agreement that companies enter into with Indian stock exchanges. The following table sets out a brief, general summary of the significant differences between the corporate governance standards applicable to us under our listing agreements with the Indian Stock Exchanges and the requirements of standards relating to U.S. domestic companies listed on the NYSE.

Table of Contents

**Standard NYSE Practices**

**Our Practice**

**Director Independence**

A majority of the board must consist of independent directors. Independence is defined by various criteria including the absence of a material relationship between the director and the listed company. For example, directors who are employees, are immediate family of an executive officer of the company or receive over \$100,000 per year in direct compensation from the listed company are not independent. Directors who are employees of or otherwise affiliated through immediate family with the listed company's independent auditor are also not independent. Determinations of independence are made by the board.

Six of our twelve directors are independent directors as defined by the NYSE. As an Indian company we adhere to Clause 49 of the Indian Listing Agreements, which states that if the Chairman of the Board is an executive director then not less than 50 per cent of the Board of Directors should comprise of independent directors

Clause 49 of the Indian listing agreements define an independent director to mean a non-executive director who (i) is receiving director's remuneration and does not have any other material pecuniary relationship or transaction with the company, its promoters, its directors, its senior management or its holding company or its subsidiaries or its associates, which may affect the independence of the director; (ii) is not related to promoters or management at the board level or at one level below the board; (iii) has not been an executive of the company in the immediately preceding three financial years; (iv) is not a partner or an executive and has not been a partner or executive during the preceding three financial years, of the statutory audit firm or the internal audit firm or the legal firm and consulting firm of the company; (v) is not a material supplier, service provider, customer, lessee, or lessor of the company; (vi) is not a shareholder, owning 2% or more of the voting shares of the company; and (vii) is not less than 21 years of age

The non-management directors must meet at regularly scheduled executive sessions without management

We comply with this standard as our non-management directors meet periodically without management at scheduled executive sessions.

**Audit Committee**

Table of Contents

- The audit committee must (i) be comprised entirely of independent directors; (ii) be directly responsible for the appointment, compensation, retention and oversight of any registered public accounting firm engaged (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the listed issuer, and each such registered public accounting firm must report directly to the audit committee; (iii) establish procedures for the receipt, retention and treatment of complaints with respect to accounting and auditing issues; (iv) establish procedures for the confidential, anonymous submission by employees of the listed issuer of concerns regarding questionable accounting or auditing matters (v) be authorized to engage independent counsel and other advisers it deems necessary in performing its duties; and (vi) be given sufficient funding by the Board of Directors to compensate the independent auditors and other advisors as well as for the payment of ordinary administrative expenses incurred by the committee that are necessary or appropriate in carrying out its duties.

The audit committee must consist of at least three members, and each member must be independent within the meaning established by the NYSE and Rule 10A-3 under the Securities Exchange Act of 1934.

- The audit committee members must be financially literate or become financially literate within a reasonable period of their appointment to the audit committee.
- Each listed company must have disclosed whether their Board of Directors has identified an audit committee financial expert (as defined under applicable rules of the SEC), and if not the reasons why the board has not done so

We comply with this standard. Our Audit Committee comprises of three members all being independent directors within the meaning established by the NYSE. All the Committee members are financially literate and the Audit Committee has identified Mr. Arun Duggal as a financial expert (as defined under applicable rules of the SEC) The Committee has a written charter that addresses the Committee's purpose and responsibilities. The charter and Clause 49 of the Indian Listing Agreements address the duties, role and responsibilities of the Audit Committee.

The Audit Committee also meets separately, quarterly, with management, with internal auditors and with independent auditors and reviews with the independent auditors any audit problems or difficulties and management's response, if any.

The Audit Committee reports regularly to the Board of Directors.

Table of Contents

- The audit committee must have a written charter that addresses the committee's purpose and responsibilities.
- At a minimum, the committee's purpose must be to assist the board in the oversight of the integrity of the company's financial statements, the company's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence and the performance of the company's internal audit function and independent auditors.
- The duties and responsibilities of the audit committee include conducting a review of the independent auditing firm's annual report describing the firm's internal quality control procedures, any material issues raised by the most recent internal quality control review or peer review of the firm and any steps taken to address such issues.

The audit committee is also to assess the auditor's independence by reviewing all relationships between the company and its auditor. It must establish the company's hiring guidelines for employees and former employees of the independent auditor.

The committee must also discuss the company's annual audited financial statements and quarterly financial statements with management and the independent auditors, the company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management.

The committee must also meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with independent auditors and review with the independent auditor any audit problems or difficulties and management's response. The committee must report regularly to the board

Each listed company must have an internal audit function.

We comply with this standard as we have an internal audit function.

**Compensation Committee**



Table of Contents

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Listed companies must have a compensation committee composed entirely of independent board members as defined by the NYSE listing standards.</li> <li>• The committee must have a written charter that addresses its purpose and responsibilities.</li> <li>• These responsibilities include</li> </ul> | <p>We comply with this standard as our Compensation and Remuneration committee is composed entirely of Independent directors as defined by the NYSE listed standards. This Committee has a written charter which addresses its purpose and responsibilities.</p> |
|--|--|

(i) reviewing and approving corporate goals and objectives relevant to CEO compensation; (ii) evaluating CEO performance and compensation in light of such goals and objectives for the CEO; (iii) based on such evaluation, reviewing and approving CEO compensation levels; (iv) recommending to the board non-CEO compensation, incentive compensation plans and equity-based plans; and (v) producing a report on executive compensation as required by the Securities and Exchange Commission to be included in the company's annual proxy statement or annual report. The committee must also conduct an annual performance self-evaluation.

**Nominating/ Corporate Governance Committee**

- Listed companies must have a nominating/ corporate governance committee composed entirely of independent board members.
- The committee must have a written charter that addresses its purpose and responsibilities, which include (i) identifying individuals qualified to become board members; (ii) selecting, or recommending that the board select, the director nominees for the next annual meeting of shareholders; (iii) developing and recommending to the board a set of corporate governance principles applicable to the company; (iv) overseeing the evaluation of the board and management; and (v) conducting an annual performance evaluation of the committee.

As a Foreign Private Issuer, we follow home country practice in lieu of NYSE Corporate Governance Standards as permitted. There is no comparable provision under Clause 49 of the Indian Corporate Governance norms with respect to a Nominating and Corporate Governance Committee. However, as matter good governance practice, we have established a Nominating and Governance Committee which comprises of majority of Independent Directors and the Committee has a written charter which addresses its purpose and responsibilities

**Equity-Compensation Plans**

Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with certain limited exceptions.

We comply with this standard. Our Employee Stock Option Plan was approved by our Shareholders.

**Corporate Governance Guidelines**

Listed companies must adopt and disclose corporate governance guidelines.

We have adopted corporate governance guidelines as prescribed in Clause 49 of the Indian Listing Agreements

**Code of Business Conduct and Ethics**

All listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

We comply with this standard. The Company has adopted a Code of Business Conduct and Ethics for its directors, officers and employees. This code is posted on the website of the Company.



Table of Contents

**ITEM 17. FINANCIAL STATEMENTS**

See Item 18.

**ITEM 18. FINANCIAL STATEMENTS**

The following financial statement and auditors report for fiscal 2010 are incorporated herein by reference and are included in this Item 18 of this report on Form 20-F:

- Report of Independent Registered Public Accounting Firm.
- Consolidated Balance Sheets as of December 31, 2009 and 2010.
- Consolidated Statements of Income for the years ended December 31, 2008, 2009 and 2010
- Consolidated Statements of Stockholders Equity and Comprehensive Income for the years ended December 31, 2008, 2009 and 2010.
- Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2009 and 2010.
- Notes to the Consolidated Financial Statements

Table of Contents

ITEM 19. EXHIBITS

- \*1.1 Articles of Association of Patni Computer Systems Limited, as amended
- \*1.2 Memorandum of Association of Patni Computer Systems Limited, as amended
- \*1.3 Certificate of Incorporation of Patni Computer Systems Limited, as amended
- \*2.1 Form of Deposit Agreement
- \*2.2 Patni s specimen certificate for equity shares
- \*2.3 Form of American Depositary Receipt
- \*2.4 Patni ESOP 2003-Revised 2006 #
- \*4.2 Registration Rights Agreement
- \*4.3 Purchase Agreement between Patni Computer Systems Limited and Cymbal Corporation dated November 3, 2004
- \*4.4 Lease Deed entered into between the Company and State Industrial Promotion Corporation of Tamil Nadu Limited (SIPCOT), dated September 30, 2004
- \*4.5 Service Agreement between Patni Computer Systems Inc. and Mr. Narendra K. Patni dated December 1, 2000, as amended
- \*4.6 Consultancy Agreement between Patni Computer Systems Limited and Patni Americas Inc. (formally Patni Computer Systems Inc) dated October 27, 2000
- \*4.7 Terms of employment for Mr. Gajendra K. Patni and Mr. Ashok K. Patni
- \*4.8 Information Technology Services Agreement between General Electric International Inc. and Patni Computer Systems Inc. dated November 12, 2003
- \*\* 4.9 Amendment to Information Technology Services Agreement between General Electric International Inc. and Patni Computer Systems Inc. dated August 03, 2006
- 8.1 List of subsidiaries of the Registrant, see Item 4. Information on the Company Organizational Structure
- 12.1 Certification of Chief Executive Officer under Section 302 of the Sarbanes Oxley Act
- 12.2 Certification of Chief Financial Officer under Section 302 of the Sarbanes Oxley Act
- 13.1 Certification of Chief Executive Officer under Section 906 of the Sarbanes Oxley Act
- 13.2 Certification of Chief Financial Officer under Section 906 of the Sarbanes Oxley Act

---

\* Previously filed on November 17, 2005 with the SEC on Form F-1 (File Number 333-129771)

# Incorporated by reference from Form S - 8 (file number 33-137306)

\*\* Previously filed on March, 5, 2008 with the SEC on Form 20F/A (File Number 001-32692 08666713)

Table of Contents

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

For Patni Computer Systems Limited

By: */s/ Jeya Kumar*  
Jeya Kumar  
*Chief Executive Officer*

For Patni Computer Systems Limited

By: */s/ Surjeet Singh*  
Surjeet Singh  
*Chief Financial Officer*

Mumbai, India  
Date: February 25, 2011

Table of Contents

Patni Computer Systems Limited and subsidiaries

Consolidated financial statements

Contents

<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2009 and 2010</u>	F-3
<u>Consolidated Statements of Income for the years ended December 31, 2008, 2009 and 2010</u>	F-4
<u>Consolidated Statements of Shareholders' Equity and Comprehensive Income/(Loss) for the years ended December 31, 2008, 2009 and 2010</u>	F-5 to F-7
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2009 and 2010</u>	F-8 to F-9
<u>Notes to the Consolidated Financial Statements</u>	F-10 to F-63

---

Table of Contents

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Patni Computer Systems Limited:

We have audited the accompanying consolidated balance sheets of Patni Computer Systems Limited and its subsidiaries ( the Company ) as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity and comprehensive income/(loss), and cash flows for each of the years in the three year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 25, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG

Mumbai, India  
February 25, 2011

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Consolidated Balance Sheets**

	As of	
	December 31, 2009	December 31, 2010
<b>Assets</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 63,459,115	\$ 78,734,320
Investments	375,858,138	280,549,767
Investment held to maturity		3,087,383
Accounts receivable, net	109,409,586	121,617,345
Unbilled revenue	19,737,311	30,730,943
Advance income taxes	5,548,939	4,325,109
Deferred income taxes	9,418,969	35,541,868
Prepaid Expenses	2,837,972	3,652,617
Other current assets	16,695,605	18,313,620
<b>Total current assets</b>	<b>\$ 602,965,635</b>	<b>\$ 576,552,972</b>
Advance income taxes	\$ 3,827,873	\$ 4,583,402
Deferred income taxes	28,732,581	16,621,609
Investments held to maturity	8,340,628	
Investment in equity affiliate		488,922
Other assets	26,528,426	36,410,401
Property, plant and equipment, net	142,052,207	136,236,454
Intangible assets, net	22,894,791	32,228,529
Goodwill	65,838,531	69,661,458
<b>Total assets</b>	<b>\$ 901,180,672</b>	<b>\$ 872,783,747</b>
<b>Liabilities and shareholders equity</b>		
<i>Current liabilities</i>		
Capital lease obligation	\$ 112,399	\$ 82,894
Trade accounts payable	5,789,789	5,886,033
Billings in excess of costs and estimated earnings on uncompleted contracts	5,717,820	17,921,494
Income taxes payable	6,366,552	2,987,781
Accrued expenses	56,284,760	60,436,873
Other current liabilities	35,982,087	35,510,906
<b>Total current liabilities</b>	<b>\$ 110,253,407</b>	<b>\$ 122,825,981</b>
Capital lease obligations excluding current portion	\$ 90,681	\$ 135,743
Other liabilities	21,212,168	22,407,381
Income taxes payable	21,485,864	26,598,830
Deferred income taxes	1,104,920	980,728
<b>Total liabilities</b>	<b>\$ 154,147,040</b>	<b>\$ 172,948,663</b>
Commitments and contingencies		
<b>Shareholders Equity</b>		
Common shares Rs. 2 par value; Authorized 250,000,000 shares (Issued and outstanding; 129,126,032 shares and 131,419,080 shares as of December 31, 2009 and 2010 respectively).	\$ 5,715,509	\$ 5,814,923
Additional paid-in capital	276,475,303	296,028,439
Retained earnings	485,732,388	402,469,572
Accumulated other comprehensive income /(loss)	(20,889,568)	(4,477,850)
<b>Total shareholders equity</b>	<b>\$ 747,033,632</b>	<b>\$ 699,835,084</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 901,180,672</b>	<b>\$ 872,783,747</b>



See accompanying notes to the consolidated financial statements

F-3

---

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Consolidated Statements of Income**

	Year ended December 31,		
	2008	2009	2010
Net Revenues	\$ 718,884,103	\$ 655,918,121	\$ 701,698,639
Cost of revenues	491,266,302	421,309,231	455,947,376
<b>Gross profit</b>	<b>227,617,801</b>	<b>234,608,890</b>	<b>245,751,263</b>
Selling, general and administrative expenses	131,056,061	122,010,352	134,106,175
Provision for doubtful debts and advances	1,625,595	2,266,983	618,519
Foreign exchange (gain)/loss, net	18,358,897	9,692,857	(22,009,042)
<b>Operating income</b>	<b>76,577,248</b>	<b>100,638,698</b>	<b>133,035,611</b>
Other income/(expense)			
Interest and dividend income	13,001,582	11,223,406	13,392,717
Interest expense	(1,744,367)	(1,494,179)	(1,052,748)
Interest expense reversed (refer note 11)	6,497,329	2,807,576	1,064,244
Gain on sale of investments, net	9,731,648	9,468,467	5,603,125
Equity in losses of affiliate			(110,332)
Other (expense)/income, net	2,561,206	1,894,684	582,578
<b>Income before income taxes</b>	<b>106,624,646</b>	<b>124,538,652</b>	<b>152,515,195</b>
Income taxes	5,203,401	4,758,887	19,336,313
<b>Net income</b>	<b>\$ 101,421,245</b>	<b>\$ 119,779,765</b>	<b>\$ 133,178,882</b>
<b>Earnings per share</b>			
Basic	\$ 0.75	\$ 0.93	\$ 1.02
Diluted	\$ 0.75	\$ 0.92	\$ 0.99
<b>Weighted average number of common shares used in computing earnings per share</b>			
Basic	135,590,677	128,254,916	130,101,442
Diluted	135,760,422	130,241,085	133,848,374

See accompanying notes to the consolidated financial statements.

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Consolidated Statements of Shareholders Equity and Comprehensive Income/(Loss) for the years ended****December 31, 2008, 2009 and 2010***(in \$ except share data)*

	Common shares		Additional Paid-	Retained	Comprehensive	Accumulated	Shareholders
	Shares	Par value	In-Capital	Earnings	Income/ (loss)	Other Comprehensive Income/ (loss)	Equity
<b>Balance as of January 1, 2008</b>	<b>139,009,409</b>	<b>\$ 6,158,044</b>	<b>\$ 313,350,315</b>	<b>\$ 285,238,586</b>		<b>\$ 76,217,156</b>	<b>\$ 680,964,101</b>
Issuance of equity shares on exercise of options	52,680	2,634	188,325				190,959
Purchase of Common Stock	(10,957,082)	(488,548)	(52,573,794)				(53,062,342)
Tax benefit arising on exercise of stock options			16,121				16,121
Compensation cost related to employee stock option plan			3,897,210				3,897,210
Cash dividend on common shares (including corporate dividend tax)				(11,444,013)			(11,444,013)
Comprehensive income							
Net income				101,421,245	101,421,245		101,421,245
Other comprehensive income:							
Translation adjustment					(119,927,020)		(119,927,020)
Unrealised gain on investments, net of tax benefit of \$ 257,690					(1,828,525)		(1,828,525)
Unrealised losses on derivative instruments:							
Unrealised holding gains (losses) arising during the year, net of tax credit of (\$2,201,998)					(42,542,853)		(42,542,853)
Less: Reclassification adjustment included in net income					12,068,379		12,068,379
Actuarial gain related to pension and other postretirement benefits, net of tax of \$195,797					1,202,993		1,202,993
Comprehensive income/(loss)					(49,605,781)	(151,027,026)	

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Consolidated Statements of Shareholders Equity and Comprehensive Income/(Loss) for the years ended****December 31, 2008, 2009 and 2010 (Continued)***(in \$ except share data)*

	Common shares Shares	Par value	Additional Paid- In-Capital	Retained Earnings	Comprehensive Income/ (loss)	Accumulated Other Comprehensive Income/ (loss)	Shareholders Equity
<b>Balance as of December 31, 2008</b>	<b>128,105,007</b>	<b>\$ 5,672,130</b>	<b>\$ 264,878,177</b>	<b>\$ 375,215,818</b>		<b>\$ (74,809,870)</b>	<b>\$ 570,956,255</b>
Issuance of equity shares on exercise of options	1,021,025	43,379	5,473,984				5,517,363
Tax benefit arising on exercise of stock options			814,537				814,537
Compensation cost related to employee stock option plan			5,308,605				5,308,605
Cash dividend on common shares (including corporate dividend tax)				(9,263,195)			(9,263,195)
Comprehensive income							
Net income				119,779,765	119,779,765		119,779,765
Other comprehensive income:							
Translation adjustment					27,702,545		27,702,545
Reclassification of unrealised gain on investments, net of tax expense of \$301,521 to net income					(3,944,229)		(3,944,229)
Unrealised losses on derivative instruments:							
Unrealized holding gains or (losses) arising during the year, net of tax benefit of \$20,446					12,330,273		12,330,273
Less: Reclassification adjustment included in net income					18,199,724		18,199,724
Actuarial losses related to pension and other postretirement benefits, net of tax of benefit of \$167,523					(368,011)		(368,011)
Comprehensive income/(loss)					53,920,302	53,920,302	
<b>Balance as of December 31, 2009</b>	<b>129,126,032</b>	<b>\$ 5,715,509</b>	<b>\$ 276,475,303</b>	<b>\$ 485,732,388</b>		<b>\$ (20,889,568)</b>	<b>\$ 747,033,632</b>

See accompanying notes to the consolidated financial statements.



Table of Contents

Patni Computer Systems Limited and subsidiaries

**Consolidated Statements of Shareholders Equity and Comprehensive Income/(Loss) for the years ended****December 31, 2008, 2009 and 2010 (Continued)***(in \$ except share data)*

	Common shares Shares	Par value	Additional Paid- In-Capital	Retained Earnings	Comprehensive Income/ (loss)	Accumulated Other Comprehensive Income/ (loss)	Shareholders Equity
<b>Balance as of January 1, 2010</b>	<b>129,126,032</b>	<b>\$ 5,715,509</b>	<b>\$ 276,475,303</b>	<b>\$ 485,732,388</b>		<b>\$ (20,889,568)</b>	<b>\$ 747,033,632</b>
Issuance of equity shares on exercise of options	2,293,048	99,414	9,597,882				9,697,296
Tax benefit arising on exercise of stock options			1,329,790				1,329,790
Compensation cost related to employee stock option plan			8,625,464				8,625,464
Cash dividend on common shares (including corporate dividend tax)				(216,441,698)			(216,441,698)
Net income				133,178,882	133,178,882		133,178,882
Other comprehensive income:							
Translation adjustment					18,030,051		18,030,051
Reclassification of gain on investments, net of tax expense of \$117,520 to net income					(1,151,145)		(1,151,145)
Unrealized losses on derivative instruments:							
Unrealized holding gains or (losses) arising during the year, net of tax benefit of \$1,955,555					11,440,147		11,440,147
Less: Reclassification adjustment included in net income					(10,979,172)		(10,979,172)
Actuarial losses related to pension and other postretirement benefits, net of tax benefit of \$315,316					(928,163)		(928,163)
Comprehensive income/(loss)					16,411,718	16,411,718	
<b>Balance as of December 31, 2010</b>	<b>131,419,080</b>	<b>\$ 5,814,923</b>	<b>\$ 296,028,439</b>	<b>\$ 402,469,572</b>		<b>\$ (4,477,850)</b>	<b>\$ 699,835,084</b>

See accompanying notes to the consolidated financial statement



Table of Contents

Patni Computer Systems Limited and subsidiaries

**Consolidated Statements of Cash Flows**

	Year ended December 31,		
	2008	2009	2010
<b>Operating activities</b>			
Net income	\$ 101,421,245	\$ 119,779,765	\$ 133,178,882
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization of fixed assets and intangible assets	27,711,972	26,251,592	28,446,543
Deferred taxes	(9,215,965)	(8,865,238)	(14,851,549)
Provision for doubtful debts and advances	1,625,595	2,266,983	618,519
(Gain)/loss on sale of property, plant and equipment, net	(371,526)	252,091	7,330
Gain on sale of investments, net	(9,731,648)	(9,468,467)	(5,603,125)
Equity in losses of affiliate			110,332
Compensation cost related to employee stock option plan	3,897,210	5,308,605	8,625,464
Deferred roll-over gains relating to cash flow hedges		4,192,350	(129,712)
Changes in assets and liabilities			
Accounts receivable	9,987,054	3,397,331	(8,899,314)
Unbilled revenue	(3,289,128)	12,087,746	(10,569,827)
Other current assets	21,015,540	(7,703,814)	(7,507,011)
Other assets	(1,675,575)	3,150,343	(1,006,840)
Trade accounts payable	(958,041)	(484,602)	(272,604)
Billings in excess of costs and estimated earnings on uncompleted contracts	3,081,643	(460,188)	12,008,131
Taxes payable	(8,427,949)	(5,983,096)	1,734,299
Excess tax benefit arising on exercise of stock options	(16,121)	(814,537)	(1,329,790)
Tax benefit on exercise of stock options	14,739	451,624	855,229
Accrued expenses	9,463,589	(864,618)	2,165,155
Other current liabilities	14,263,756	(4,380,795)	(1,915,114)
Other liabilities	(9,453,334)	(906,890)	909,191
<b>Net cash provided by operating activities</b>	<b>\$ 149,343,056</b>	<b>\$ 137,206,185</b>	<b>\$ 136,574,189</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	(43,362,388)	(18,983,035)	(11,582,665)
Proceeds from sales of property, plant and equipment	3,841,641	271,783	491,697
Purchase of investments	(973,062,275)	(1,118,436,952)	(1,869,833,925)
Proceeds from sale of investments	977,051,287	1,004,449,630	1,987,639,350
Investments in equity affiliate			(585,844)
Payments for acquisition, net of cash acquired			(7,174,705)
Payments for acquisition of technology related intangibles			(12,363,600)
<b>Net cash provided/(used) in investing activities</b>	<b>\$ (35,531,735)</b>	<b>\$ (132,698,574)</b>	<b>\$ 86,590,308</b>

See accompanying notes to the consolidated financial statements.





Table of Contents

Patni Computer Systems Limited and subsidiaries

**Consolidated Statements of Cash Flows (Continued)**

	Year ended December 31,		
	2008	2009	2010
<b>Financing activities:</b>			
Payment of capital lease obligations	(293,418)	(225,174)	(213,545)
Dividend on common shares	(9,778,450)	(7,911,016)	(185,560,361)
Corporate Dividend tax paid	(1,662,387)	(1,345,596)	(30,856,050)
Proceeds from common shares issued	190,958	5,517,363	9,697,296
Purchase of Common Stock	(53,062,342)		
Excess tax benefit arising on exercise of stock options	16,121	814,537	1,329,790
<b>Net cash used in financing activities</b>	<b>\$ (64,589,518)</b>	<b>\$ (3,149,886)</b>	<b>\$ (205,602,870)</b>
Effect of exchange rates changes on cash and cash equivalents	(21,709,325)	1,962,932	(2,286,422)
<b>Net increase in cash and cash equivalents</b>	<b>49,221,803</b>	<b>1,357,726</b>	<b>17,561,627</b>
Cash and cash equivalents at the beginning of the year	32,625,979	60,138,457	63,459,115
Cash and cash equivalents at the end of the year	<b>\$ 60,138,457</b>	<b>\$ 63,459,115</b>	<b>\$ 78,734,320</b>
<b>Supplemental disclosure of cash flow information:</b>			
Interest paid	\$ 50,302	\$ 41,757	\$ 48,826
Income taxes paid	\$ 16,993,377	\$ 23,303,213	\$ 31,509,137
<b>Non cash investing and financing activities:</b>			
Additions to property, plant and equipment, represented by capital lease obligations	\$ 149,745	\$ 57,624	\$ 156,577
Property, plant and equipment acquired on credit	\$ 3,158,568	\$ 3,348,904	\$ 482,604

See accompanying notes to the consolidated financial statements.

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**1 Organization and nature of business**

1.1 Patni Computer Systems Limited ( Patni ) is a company incorporated in India under the Indian Companies Act, 1956. In February 2004, Patni completed an initial public offering of its equity shares in India. In December 2005, Patni also completed an initial public offering of American Depositary Shares in the United States of America (USA).

1.2 Patni Computers Systems (UK) Limited ( Patni UK ), a company incorporated in the United Kingdom (UK), Patni Computer Systems GmbH ( Patni GmbH ), a company incorporated in Germany, Patni Americas, Inc. ( Patni USA ) formerly known as Patni Computer Systems, Inc., a company incorporated in Massachusetts, USA are 100% owned subsidiaries of Patni. On November 3, 2004, Patni USA, acquired 100% equity in Patni Telecom Solutions Inc. (formerly known as Cymbal Corporation), a company incorporated in California, USA, together with its subsidiaries in India, UK & Thailand, for consideration in cash. Cymbal Information Services (Thailand) Ltd., subsidiary of Patni Telecom Solutions Inc. was dissolved and the liquidation was completed in May, 2006.

In July, 2007, Patni USA, acquired 100% equity in Patni Life Sciences Inc. (formerly known as Taratec Development Corporation), a company incorporated in New Jersey, USA, for consideration in cash. Effective October 1, 2010, Patni Life Sciences Inc. has been merged with Patni USA. Patni Computer Systems Brasil, Ltd a 100% owned subsidiary of Patni incorporated in Brazil has been dissolved in October 2010. Further, Patni also has foreign branch offices in the USA, Japan, Sweden, Finland, Korea, Netherland, Australia, UAE, South Africa, Canada, Turkey, Ireland, Romania and Switzerland. In March 2008, Patni through it s wholly owned subsidiary Patni UK incorporated a subsidiary in Czech Republic named Patni Computer Systems (Czech) s.r.o. In December 2008, Patni has set up a subsidiary in Mexico named PCS Computer Systems Mexico, SA de CV. In June 2009, Patni has set up a subsidiary in Singapore named Patni (Singapore) Pte Ltd. In June 2010, Patni USA acquired CHCS Services Inc., ( CHCS ) a company incorporated in Florida, U.S.A, for consideration in cash. In June 2010, Patni (Singapore) Pte Limited has set up a 100% subsidiary in Japan named Patni Computer Systems Japan Inc. In August 2010 Patni (Singapore) Pte Limited has set up a 100% subsidiary in China named Patni Computer Systems (Suzhou) Co., Ltd. In July 2010, CHCS Services Inc., opened a branch office in Noida, India. In August 2010, Patni UK opened a branch office in Ireland. In June 2010, Patni Computer Systems Japan Inc. entered into Joint Venture Agreement (49% ownership interest) with J R Kyushu System Solutions Inc. The Joint Venture Company J R Kyushu Patni Systems Inc. has been incorporated on July 1, 2010.

1.3 Patni together with its subsidiaries (collectively, Patni Group or the Company ) is engaged in IT consulting, software development and Business Process Outsourcing ( BPO ). The Company provides multiple service offerings to its clients across various industries comprising financial services, insurance services, manufacturing, retail and distribution, communications, media and utilities and technology practice (comprising of product engineering services). The various service offerings comprise application development, application maintenance and support, packaged software implementation, infrastructure management services, product engineering services, quality assurance services and BPO services.

1.4 These financial statements are prepared on a consolidated basis for all the years presented.



Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**2 Summary of significant accounting policies**

*Basis of preparation of financial statements*

2.1 The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( US GAAP ).

*Principles of consolidation*

2.2 The consolidated financial statements include the financial statements of Patni and all of its subsidiaries, which are all more than 50% owned and controlled. All inter-company accounts and transactions are eliminated on consolidation.

2.3 Equity accounted investments are entities in respect of which, the Company has significant influence, but not control, over the financial and operating policies. Generally, a Company has a significant influence if it holds between 20 and 50 percent of the voting power of another entity. Investments in such entities are accounted for using the equity method (equity accounted affiliates) and are initially recognized at cost.

*Accounting estimates*

2.4 The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates relate to contract costs expected to be incurred to complete development of software, allowances for doubtful accounts receivable, future obligations under employee retirement and benefit plans including incentives, useful lives of property, plant and equipment and intangible assets, estimate of future cash flows used in assessing impairment, deferred tax assets and liabilities and provisions for contingencies and litigation.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

The Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable. The actual amounts may vary from the estimates used in the preparation of the accompanying consolidated financial statements. Appropriate changes in estimates are made as management become aware of changes in circumstances surrounding the estimates. Changes in estimates are reflected in the financial statements in the period in which changes are made and, if material, their effects are disclosed in the Notes to the consolidated financial statements.

### *Revenue and cost recognition*

2.5 The Company derives its revenues primarily from software services and to a lesser extent from BPO services. Revenue is recognized when there is persuasive evidence of a contractual arrangement with customers, delivery has occurred, the sales price is fixed or determinable and collectability is probable. Software services are provided either on a fixed price, fixed time frame or on a time and material basis. Revenue with respect to time-and-material contracts are recognized as related services are performed. The Company's fixed price contracts include application maintenance and support services, on which revenue is recognized ratably over the term of maintenance. Revenue with respect to other fixed price contracts is recognized on a percentage of completion basis. The input (cost expended) method has been used because management considers this to be the best available measure of progress on these contracts as there is a direct relationship between input and productivity. Provisions for estimated losses, if any, on uncompleted contracts

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**2 Summary of significant accounting policies (Continued)**

***Revenue and cost recognition (Continued)***

are recorded in the period in which such losses become probable based on the current contract estimates.

2.6 The asset, Unbilled revenue, represents revenues recognized in excess of amounts billed. These amounts are billed after the milestones specified in the agreement are achieved. The liability, Billings in excess of costs and estimated earnings on uncompleted contracts, represents billings in excess of revenues recognized.

2.7 Direct and incremental contract origination and set up costs incurred in connection with support/maintenance service arrangements are charged to expense as incurred. These costs are deferred only in situations where there is a contractual arrangement establishing a customer relationship for a specified period. The costs to be deferred are limited to the extent of future contractual revenues. Further, revenue attributable to set up activities is deferred and recognized systematically over the periods that the related fees are earned, as services performed during such period do not result in the culmination of a separate earnings process.

Costs that are incurred for a specific anticipated contract and that will result in no future benefits unless the contract is obtained, are not included in contract costs before the receipt of the contract. However, such costs are deferred, subject to the evaluation of their probable recoverability.

2.8 Warranty costs on sale of services are accrued based on management's estimates and historical data at the time related revenues are recorded.

2.9 The Company grants volume discounts to certain customers, which are computed based on a pre-determined percentage of the total revenues from those customers during a specified period, as per the terms of the contract. These discounts are earned only after the customer has provided a specified cumulative level of revenues in the specified period. The Company reports revenues net of discounts offered to customers.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

The Company estimates the total number of customers that will ultimately earn these discounts, based on which a portion of the revenue on the related transactions is allocated to the services that will be delivered in the future.

Reimbursements of out of pocket expenses received from customers have been included as a component of revenues.

2.10 Revenues from BPO Services are derived from both time-based and transaction-priced contracts. Revenue is recognized as the related services are performed, in accordance with the specific terms of the contracts with the customer.

2.11 The Company reports taxes assessed by governmental authorities which are directly imposed on revenue producing transactions on a net basis.

### *Advertising cost*

2.12 Advertising costs incurred during the year have been expensed. The total amount of advertising costs expensed was \$1.6 million, \$1.34 million and \$2.45 million for the years ended December, 31, 2008, 2009 and 2010, respectively.



Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**2 Summary of significant accounting policies (Continued)**

***Cash and cash equivalents***

2.13 The Company considers investments in highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents comprise cash and deposits with banks.

***Investments***

2.14 Management determines the appropriate classification of investment securities at the time of purchase and re-evaluates such designation at each balance sheet date. At December 31, 2009 and 2010, investment securities were classified as available-for-sale or held to maturity. The investment securities classified as available-for-sale consists of units of mutual funds and other investments. Other investments primarily consists of certificate of deposit with banks, which are carried at fair value. Held to maturity securities consist of investment made by the Company in term deposits issued by the Government of India.

2.15 Available-for-sale securities are carried at fair market value with unrealized gains and losses, net of deferred income taxes, reported as a separate component of other comprehensive income in the statement of shareholders' equity and comprehensive income/(loss). The fair values represent either the quoted market prices for the investments at balance sheet date where available or Net Asset Value ( NAV ) as stated by the issuers of these mutual fund units in the published statements. NAVs represent the price at which the issuer will issue further units in the mutual fund and the price at which the issuer will redeem such units from the investors. Accordingly, such NAV are analogous to fair market value with respect to these investments as transactions of these mutual funds are carried out at such prices between investors and the issuers of these units of mutual funds. Fair value of investments in certificate of deposits, classified as available for sale is determined using observable market inputs.

Realized gains and losses, and decline in value judged to be other than temporary on available-for-sale securities are included in the consolidated statements of income. The cost of securities sold or disposed is determined on average cost basis.

***Trade accounts receivable***

2.16 Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. The allowance for doubtful accounts is determined by evaluating the relative credit-worthiness of each customer, historical collections experience and other information, including the aging of the receivables. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

***Business combinations, goodwill and intangible assets***

2.17 The Company accounts for its business combinations under the acquisition method of accounting. Intangible assets acquired in a business combination are recognized and reported separately from goodwill. All assets and liabilities of the acquired businesses, including goodwill, are assigned to reporting units.

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**2 Summary of significant accounting policies (Continued)**

***Business combinations, goodwill and intangible assets (Continued)***

2.18 Goodwill represents the cost of the acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased. Goodwill is not amortized but is tested for impairment at least on an annual basis at year end, relying on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. Under the first step, the fair value of the reporting unit in which the goodwill resides is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the step two of the impairment test (measurement) is performed. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in a business combination. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. The Company performs its annual impairment review of goodwill at December 31, and when a triggering event occurs between annual impairment tests. Based on the results of its annual impairment tests, the Company determined that no impairment of goodwill existed as of December 31, 2009 or December 31, 2010.

2.19 Intangible assets acquired either through a business combination or individually are amortized over their respective individual estimated useful lives in proportion to the economic benefits consumed in each period. Intangible assets comprise customer, technology, intellectual property rights and marketing related intangible assets and are being amortized over a period of 3-10 years. The estimated useful life of an identifiable intangible asset is based on a number of factors including the effects of obsolescence, demand, competition and other economic factors (such as the stability of the industry, and known technological advances) and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

2.20 Intangible assets are evaluated for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets.

***Property, plant and equipment***

2.21 Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Gains and losses on disposals are included in the consolidated statements of income at amounts equal to the difference between the net book value of the disposed

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

assets and the net proceeds received upon disposal. Expenditures for replacements and improvements are capitalized, whereas the cost of maintenance and repairs is charged to income when incurred.

F-14

---

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**2 Summary of significant accounting policies (Continued)**

*Property, plant and equipment (Continued)*

2.22 Property, plant and equipment are depreciated over the estimated useful life of the asset using the straight-line method, once the asset is put to its intended use. The cost of software obtained for internal use is capitalized and amortized over the estimated useful life of the software. The estimated useful lives of assets are as follows:

Buildings	40 years
Leasehold premises and improvements	Over the lease period or the useful lives of the assets, whichever is shorter
Computer Hardware and software and other service equipments	3-5 years
Furniture and fixtures	3-8 years
Other equipments	3-8 years
Vehicles	4-5 years

*Impairment of long-lived assets and long-lived assets to be disposed*

2.23 Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever an event or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If the carrying value exceeds the expected undiscounted cash flows of the asset, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

*Functional and Foreign currency translation*

2.24 The functional currency of Patni and its branches in the USA, Japan, Sweden, Finland, UAE, South Africa, Australia, Korea, Netherland, Canada, Turkey, Ireland, Romania and Switzerland is the Indian Rupee. The functional currencies of Patni's subsidiaries are the applicable local currencies.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

2.25 The accompanying consolidated financial statements are presented in US Dollars. The translation is performed for balance sheet accounts using the exchange rate in effect at the balance sheet date and for statements of income accounts using the exchange rate prevailing on the date of those transactions. In respect of subsidiaries, the respective functional currencies are first translated into Indian Rupees and then into US Dollars. The gains or losses resulting from such translation are reported in other comprehensive income/ (loss) in the statement of shareholders' equity and comprehensive income/ (loss).

### *Foreign currency transactions*

2.26 Transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the date of the transaction. Resulting gains or losses from settlement of such foreign currency transactions are included in the consolidated statements of income. Unsettled monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the balance sheet date. A transaction gain or loss arising from a change in exchange rates between the date of a transaction and the year end exchange rates is included in the consolidated statements of income.

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**2 Summary of significant accounting policies (Continued)**

*Income taxes*

2.27 Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in results of operations in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance if it is more likely than not that some portion or all of the assets will not be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

*Concentration of credit risk*

2.28 Financial instruments that potentially subject the Company to concentration of credit risks consist principally of cash equivalents, investments and accounts receivables. Cash equivalents are invested with banks with investment grade credit ratings. To reduce credit risk, investments are made in a diversified portfolio of mutual funds, government bonds, which are periodically reviewed. To reduce its credit risk on accounts receivables, the Company performs ongoing credit evaluations of customers.

*Retirement benefits to employees*

2.29 Contributions to defined contribution plans are charged to income in the period in which they accrue. Current services costs for defined benefit plans are accrued in the period to which they relate. The liability in respect of defined benefit plans is calculated annually by a qualified actuary using the projected unit credit method. The Company recognizes the net funded position of its plans as an asset or liability in the consolidated balance sheets.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

In measuring the defined benefit obligations, the Company uses discount rates based on yields of high quality fixed income instruments (i.e. yields on high quality corporate bonds) prevailing as at the balance sheet date for the corresponding tenure of the obligations.

F-16

---



Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**2 Summary of significant accounting policies (Continued)**

*Stock-based compensation*

2.30 Effective January 1, 2006, the Company recognizes compensation expense relating to share-based payments granted after this date in net income using a fair value measurement method. Under the fair value method, the estimated fair value of awards is charged to income on an accelerated basis over the requisite service period, which is generally the vesting period. The Company implemented this fair value model using the modified prospective method and therefore, prior periods were not restated. Under the modified prospective method, fair value accounting was applied to new awards granted after the time of adoption, as well as to the unvested portion of previously granted equity-based awards for which the requisite service had not been rendered as of January 1, 2006. The Company granted stock options under the Patni ESOP 2003 Revised 2009 plan (the plan). See Note 18 for further discussion.

2.31 Prior to the adoption of fair value accounting, the Company recorded benefits associated with the tax deductions in excess of recognized compensation cost as an operating cash flow. Subsequent to the adoption of fair value accounting such benefits have been recorded as a financing cash inflow. In the accompanying consolidated statements of cash flows for year ended December 31, 2008, 2009 and 2010, tax benefit of \$16,121, \$814,537 and \$1,329,790, respectively has been classified as financing cash flows.

2.32 Effective April 1, 2007, an amendment has been made to Indian Income Tax Act 1961 subjecting specified securities allotted or transferred by an employer to its employees to Fringe Benefit Tax (FBT). The liability to pay FBT by the employer arose at the time of allotment of the securities, consequent to exercise of option by the employees and is calculated on the difference between the fair value of the underlying share on the date of vesting and the exercise price paid by the employee based on the corporate tax rate. The FBT arising from such allotment of a specified option is collectible from employees, which is considered as additional exercise price of the option as this would reduce the ultimate benefit to the employee and therefore is recognized as additional paid-in-capital.

On August 18, 2009, a further amendment was made to the Indian Income Tax Act, with retrospective effect from April 1, 2009, abolishing the provisions of FBT. Thus, for any exercises of stock options by the employee on or after April 1, 2009, the shares issued, or allotted and transferred by the Company, are no longer subject to FBT.

Since the abolition of the provisions of FBT, such deemed increase to the stock option exercise price is no longer necessary. This change has been accounted for as a modification in the exercise price of the existing outstanding options. Accordingly, the difference in the fair value of the unvested outstanding options immediately before the modification and after the modification has been recognized as incremental share-based compensation over the remaining vesting period. For the options vested and outstanding as on the date of modification, the incremental cost has been recognized in the statement of income immediately on the date of modification.



Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**2 Summary of significant accounting policies (Continued)**

*Dividends*

2.33 A final dividend, including tax thereon, on common shares is recorded as a liability on the date of approval by the shareholders at the annual general meeting. An interim dividend, including tax thereon, is recorded as a liability on the date of declaration by the board of directors.

*Derivatives and hedge accounting*

2.34 The Company enters into forward foreign exchange contracts/option contracts (derivatives) to manage the risk of changes in foreign exchange rates on inter-company and end-customer accounts receivable and forecasted sales transactions denominated in foreign currencies. The strategy also includes entering into short-term forward foreign exchange contracts which are replaced with successive new contracts up to the period in which the forecasted transactions are expected to occur (roll-over hedging). Upon completion of the formal documentation and testing for effectiveness, the Company designates forward and option contracts, which meet the hedging criteria, as cash flow hedges.

2.35 Changes in fair values of designated cash flow hedges are deferred and recorded as a component of accumulated other comprehensive income/ (loss) until the hedged transactions occur and are then recognized in the consolidated statements of income and included in foreign exchange (gain)/loss. In respect of derivatives acquired pursuant to roll-over hedging strategy, the forward premium/discount points are excluded from assessing hedge effectiveness. Changes in fair value of derivatives not designated as hedging instruments and ineffective portion of the hedging instruments are recognized in consolidated statements of income in the current period and included in foreign exchange (gain)/loss.

2.36 In respect of derivatives designated as hedges, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also formally assesses, both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge, or if a derivative ceases to be a highly effective hedge, the Company will, prospectively, discontinue hedge accounting with respect to that derivative. The derivatives, which do not qualify for hedge accounting, are recognized at fair value with gains or losses included in foreign exchange (gain)/loss in the consolidated statements of income.

*Earnings per share*

2.37 Basic earnings per share is computed using the weighted average number of common outstanding during the year. Diluted earnings per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the year using the treasury stock method for options except where the result would be anti-dilutive.

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**2 Summary of significant accounting policies (Continued)**

*Commitments and Contingencies*

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

*Reclassifications*

2.39 Certain reclassifications have been made in the financial statements of prior years to conform to classifications used in the current year.

**Recently Adopted Accounting Standards**

2.40 In June 2009, the FASB issued authoritative guidance Accounting Standards Codification (ASC) 810, Consolidation of variable interest entities which revises the approach to determining when an entity that is insufficiently capitalized or not controlled through voting rights (referred to as a variable interest entity or VIE) should be consolidated. The new consolidation model for VIEs considers whether the enterprise has the power to direct the activities that most significantly impact the VIE's economic performance and shares in the significant risks and rewards of the entity. This guidance requires companies to continually reassess their involvement with VIEs to determine if consolidation is appropriate and provide additional disclosures about their involvement with them. The Company adopted this ASC 810 from January 1, 2010. The adoption of this ASC did not have any impact on the Company's consolidated financial position, results of operations and cash flows.

2.41 In August 2009, the FASB issued revised authoritative guidance ASU 2009-05 regarding the measurement of liabilities at fair value which provides clarification that in circumstances where a quoted market price in an active market for an identical liability is not available, a reporting entity must measure fair value of the liability using one of the following techniques: 1) the quoted price of the identical liability when traded as an asset; 2) quoted prices for similar liabilities or similar liabilities when traded as assets; or 3) another valuation technique, such as a present value technique or the amount that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability. The Company adopted this guidance from January 1, 2010. The adoption of this guidance did not have any impact on the Company's consolidated financial position, results of operations or cash flows.

2.42 In January, 2010, the FASB issued ASU 2010-06 which amends ASC 820, Fair Value Measurements and Disclosures. The ASU requires the reporting entities to make new disclosures about recurring and non recurring fair value measurements. This includes disclosure regarding significant transfers into and out of Level 1 and Level 2 fair value measurements in the fair value hierarchy as well as the reasons for the transfer. The ASU also requires a separate disclosure for the purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. The FASB further clarified the existing fair-value measurement disclosure guidance about the level of disaggregation, requiring the entities to disclose the fair value measurements by Class instead of Major Category , as well as requiring disclosure for the inputs, and valuation techniques used by the entities for the purpose of fair value measurement using significant observable inputs (Level 2) or significant unobservable inputs (Level 3).

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**2 Summary of significant accounting policies (Continued)**

**Recently Adopted Accounting Standards (Continued)**

The provisions of the ASU 2010-06 is effective for annual and interim reporting periods beginning after December 15, 2009, except for the disclosure for the purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements, which will be effective for interim and annual reporting periods beginning after December 15, 2010. The Company adopted this ASU 2010-06 from January 1, 2010. The adoption of this ASU did not have any impact on the Company's consolidated financial position, results of operations and cash flows.

2.43 In February 2010, the FASB issued ASU 2010-09 which amends ASC 855-10, Subsequent Events such that a SEC filer, as defined in the ASU, is no longer required to disclose the date through which subsequent events have been evaluated in the originally issued and revised financials. The ASU also provides that SEC filers must evaluate the subsequent events through the date the financial statements are issued. The provisions of ASU 2010-09 are effective immediately for SEC filers. Effective the date of issuance of the ASU in February 2010, the Company adopted ASU 2010-09. The adoption of this ASU did not have any impact on the Company's consolidated financial position, results of operations and cash flows.

2.44 In July 2010, the FASB issued ASU 2010-20 Receivables (Topic 310) - Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This ASU requires more robust and disaggregated disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The objective of enhancing these disclosures is to improve understanding of users of financial statements for the nature of an entity's credit risk associated with its financing receivables and the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The new and amended disclosures will be effective for the first interim or annual reporting periods ending on or after December 15, 2010. Effective the date of issuance of the ASU in July 2010, the Company adopted ASU 2010-20. The adoption of this ASU did not have any impact on the Company's consolidated financial position, results of operations and cash flows.

**Recently Issued Accounting Standards**

2.45 In October 2009, FASB issued ASU 2009-13 which amended revenue recognition guidance for arrangements with multiple deliverables. The new guidance eliminate the requirement that all undelivered elements have Vendor Specific Objective Evidence (VSOE) or Third Party Evidence (TPE) before an entity can recognize the portion of an overall arrangement fee that is attributable to items that already have been delivered. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, the overall arrangement fee will be allocated to each element (both delivered and undelivered items) based on

their relative estimated selling prices.

Application of the residual method of allocating an overall arrangement fee between delivered and undelivered elements will no longer be permitted upon adoption of this new FASB guidance. The provisions of this FASB guidance will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The requirements of this ASU and its impact on the Company are being evaluated.

2.46 In April 2010, the Emerging Issues Task Force (EITF) reached a final consensus on milestone method of revenue recognition and published ASU 2010-17, Revenue Recognition - Milestone Method (Topic 605). The scope of this ASU is limited to arrangements that include milestones relating to research or development deliverables. The consensus specifies guidance that must be met for a vendor to recognize consideration that is contingent upon achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. The guidance applies to milestones in arrangements within the scope of this consensus regardless of whether the arrangement is determined to have single or multiple deliverables or units of accounting. The final consensus will be effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2010. The requirements of this EITF and its impact on the Company are being evaluated.



Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**2 Summary of significant accounting policies (Continued)**

**Recently Issued Accounting Standards (Continued)**

2.47 In December 2010, the FASB issued ASU 2010-28, on When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts . The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist.

Upon adoption of these amendments, an entity with reporting units that have carrying amounts that are zero or negative is required to assess whether it is more likely than not that the reporting units' goodwill is impaired. If the entity determines that it is more likely than not that the goodwill of one or more of its reporting units is impaired, the entity should perform Step 2 of the goodwill impairment test for those reporting unit(s). Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. Any goodwill impairments occurring after the initial adoption of the amendments should be included in earnings as required by section 350-20-35. For public entities, the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The adoption of this ASU is not expected to have a significant impact on the Company's consolidated financial position, results of operations and cash flows.

2.48 EITF 10-G, Disclosure of Supplementary Pro Forma Information for Business Combinations, specifies that if a public entity presents comparative financial statements, the entity (acquirer) should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. EITF 10-G also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. EITF 10-G is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company will adopt the revised guidance effective January 1, 2011.

2.49 In April 2010, FASB issued ASU 2010-13 which states that an employee share based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, such an award should not be classified as a liability based only on this condition if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The adoption of this ASU is not expected to have a significant impact on the Company's consolidated financial position, results of operations and cash flows.



Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****3 Acquisitions****3.1 Acquisition of business and assets of Logan-Orviss International Associates BV ( LOI )**

On July 2, 2007, the Company acquired 100% of the business and assets of LOI, a European telecommunications consulting services Company. The Company believes that through this acquisition it will strengthen its presence in communication and media practice through consultancy services on IT initiatives. The purchase price of \$8,613,938 (including direct acquisition related expenses of \$863,938) was paid in cash.

This transaction has been accounted using the purchase method. The purchase price has been allocated to the acquired assets as per management's estimates and independent valuation of fair values as summarized below:

<b>Intangible assets</b>		
- Customer contracts and non contractual customer relationships	1,370,000	
- Intellectual property rights	790,000	2,160,000
Goodwill		6,453,938
<b>Total purchase price</b>	<b>\$</b>	<b>8,613,938</b>

Goodwill generated from the above acquisition was allocated to Communications, Media and Utilities segment.

As a part of the business acquisition of Logan-Orviss International Associates in fiscal year 2007, the Company initiated an incentive plan linked to revenues for certain specific employees. Since, the incentive payments are linked to continuing employment, the payments under the plan are recognized as compensation costs for post acquisition services. Based on the assessment of the revenue targets achieved for the contractual year ended June 30, 2008, June 30, 2009 and June 30, 2010 an amount of \$117,108, \$123,810 and \$Nil, respectively has been accrued as selling, general and administrative expenses.

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**3 Acquisitions (Continued)**

**3.2 Acquisition of Taratec Development Corporation (Taratec)**

On July 23, 2007, Patni USA acquired 100% equity interest in Taratec Development Corporation (subsequently named as Patni Life Sciences Inc), which is a leading consulting company in the life sciences industry providing integrated business, information technology, and regulatory compliance products and services.

The primary purpose for the acquisition was to enhance Patni's market specific services and provide additional capability to support the growing and diverse requirements of the life sciences market, from pharmacovigilance to demand-driven supply chains. The purchase price of \$15,680,226 (including direct acquisition related expenses of \$435,008), was paid in cash.

The terms of the purchase also provide for payment of contingent consideration to all the selling shareholders, payable over three years, and calculated based on the achievement of specified revenue and margin targets. The contingent consideration is payable in cash and cannot exceed \$13,200,000. Based on assessment of the revenue and margin targets achieved through the contractual year ended July 31 2008, July 31, 2009 and July 31, 2010, the management has concluded that no contingent consideration is required to be paid.

As part of the acquisition, the Company initiated an incentive plan linked to revenues and margins, for certain specific employees of Taratec and Patni. This incentive plan was applicable up to July 31, 2010. Since, the incentive payments are linked to continuing employment, the payments under the plan are recognized as compensation for post acquisition services. Based on the assessment of the revenue and margin targets achieved through the contractual year ended July 31, 2008, July 31, 2009 and July 31, 2010, the management had concluded that no compensation cost is required to be accrued for these employees.

This transaction has been accounted using the purchase method of accounting. The purchase price, net of cash acquired of \$2,843,782, has been allocated to the acquired assets and assumed liabilities as per management's estimates and independent valuation as summarized below:

Net current assets	\$	2,528,948
Deferred tax asset		920,600
Property, plant and equipment		84,538
Deferred tax liability		(696,000)
Intangible assets		

Edgar Filing: Patni Computer Systems LTD - Form 20-F

- Customer contracts and non contractual customer Relationships	1,550,000	
- Intellectual property rights	190,000	1,740,000
Goodwill		8,258,358
<b>Total purchase price</b>	<b>\$</b>	<b>12,836,444</b>

Goodwill generated from the above acquisition was allocated to Manufacturing, Retail and Distribution segment.

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****3 Acquisitions (Continued)****3.3 Acquisition of CHCS Services Inc. ( CHCS )**

Effective June 9, 2010, Patni USA acquired 100% equity interest in CHCS from one of its insurance customers. CHCS is a Third Party Administrator ( TPA ) providing services to insurance companies. The primary purpose for the acquisition is to step into a new line of business as a TPA in the insurance and healthcare sector, which will enhance Patni's existing BPO capabilities to deliver end-to-end platform based solution and TPA services to insurance providers' back office transactions. With this acquisition, Patni has created a new hub in Pensacola, Florida. As part of acquisition, Patni obtained an assembled and trained work force of 250 employees. A considerable expenditure for recruiting, selecting and training would be required to replace these employees with individuals of comparable skills and expertise. The value of assembled and trained workforce is not included in purchase price summary but is included with the residual value of goodwill. The terms of the Stock Purchase Agreement provided for payment of cash consideration of \$6,000,000 and an amount equal to the working capital to the selling shareholders. Acquisition-related expenses incurred by the Company amounted to \$574,274, which have been recorded under selling, general and administrative expenses. This transaction has been accounted using the acquisition method of accounting. The purchase price of \$7,284,684 has been allocated to the acquired assets and assumed liabilities based on management's estimates and independent valuation as summarized below:

Cash		52,325
Net current assets		1,244,498
Property, plant and equipment		572,300
Intangibles		
- Customer Contracts	1,200,019	
- Technology platform	100,000	
- Trademark	617,024	1,917,043
Deferred Tax Liabilities		(543,117)
Goodwill		4,041,635
<b>Total purchase price</b>		<b>7,284,684</b>

Goodwill includes \$1,536,978, which is deductible for tax purposes as per local taxation laws in the United States of America. Goodwill generated from the above acquisition was allocated to Insurance segment.

**3.4 Equity affiliate**

In June 2010, Patni Computer Systems Japan Inc. entered into Joint Venture Agreement (49% ownership interest) with J R Kyushu System Solutions Inc. The Joint Venture Company J R Kyushu Patni Systems Inc. has been incorporated on July 1, 2010. The Company has invested

Edgar Filing: Patni Computer Systems LTD - Form 20-F

\$585,844 (Japanese Yen 49.0 million) and its equity in losses for the period ended December 31, 2010 is \$110,332.

F-24

---

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****4 Cash and Cash Equivalents**

Cash and cash equivalents held by the Company are as follows:

As of	December 31, 2009	December 31, 2010
Bank Accounts	\$ 63,337,520	\$ 57,544,474
Money In Transit	58,084	9,602,565
Term Deposits		11,185,684
Cash in Hand	63,511	401,597
<b>Total</b>	<b>\$ 63,459,115</b>	<b>\$ 78,734,320</b>

Term deposits with banks can be withdrawn at any time, without prior notice or penalty on the principal.

Cash and cash equivalents as of December 31, 2009 and December 31, 2010 include restricted cash balance of \$16,557 and \$43,733, respectively. Restrictions are primarily on account of unclaimed dividends.

The following table sets out the break-up of cash and cash equivalents held in banks:

As of	December 31, 2009	December 31, 2010
<b>Bank Accounts</b>		
Bank of America , USA	\$ 26,147,543	21,245,156
Natwest Bank , UK	10,697,690	14,940,007
Standard Chartered Bank- EEFC accounts, India	6,452,547	2,638,974
Citibank EEFC Bank accounts, India	2,811,973	1,521,854
Standard Bank of South Africa, South Africa	2,777,323	1,806,284
AK Bank, Turkey	2,364,193	975,783
Citibank N.A., India	2,042,601	832,519
ANZ Bank, Australia	2,040,269	1,497,494
Handelsbanken, Finland	1,949,616	484,885
Bank of Tokyo, Japan	1,269,330	988,166
ICICI, India	558,456	1,193,546
Deutsche Bank, Germany	926,481	5,976,224
Others *	3,299,498	3,443,582



Edgar Filing: Patni Computer Systems LTD - Form 20-F

	\$	63,337,520	\$	57,544,474
<b>Money in transit</b>	\$	58,084	\$	9,602,565
<b>Term Deposits</b>			\$	11,185,684
<b>Cash in Hand</b>	\$	63,511	\$	401,597
<b>Cash and Cash Equivalents</b>	\$	63,459,115	\$	78,734,320

---

\* Others includes bank balances in various accounts with banks spread across various locations in which the Company held balances of less than \$1 million individually.

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****5 Investments**

5.1 Investment securities consist of the following:

	As of December 31, 2009			
	Cost of Purchase	Gross unrealized holding gains	Gross unrealised holding losses	Fair value
<b>Available for sale:</b>				
<b>Mutual Fund Units:</b>				
- Liquid	\$ 355,745,005	\$ 1,444,038	\$ (10,774)	\$ 357,178,269
- Fixed Maturity	7,523,646	486,318		8,009,964
Other Investments	10,009,802	660,103		10,669,905
Amount reported as investments - current	<b>\$ 373,278,453</b>	<b>\$ 2,590,459</b>	<b>\$ (10,774)</b>	<b>\$ 375,858,138</b>
<b>Held to maturity:</b>				
Term deposit	\$ 2,966,595			
Non-Convertible Debentures	5,374,033			
Amount reported as investments- non current	<b>\$ 8,340,628</b>			

	As of December 31, 2010			
	Cost of Purchase	Gross unrealized holding gains	Gross unrealised holding losses	Fair value
<b>Available for sale:</b>				
<b>Mutual Fund Units:</b>				
- Liquid	\$ 68,813,564	\$ 20,333	\$ (100,720)	\$ 68,733,177
- Fixed Maturity	155,993,986	1,047,733	(2,070)	157,039,649
Other Investments	54,431,197	345,744		54,776,941
Amount reported as investments - current	<b>\$ 279,238,747</b>	<b>\$ 1,413,810</b>	<b>\$ (102,790)</b>	<b>\$ 280,549,767</b>
<b>Held to maturity:</b>				
Term deposit	\$ 3,087,383			
Amount reported as investments- current	<b>\$ 3,087,383</b>			

5.2 Dividends from securities available for sale and gross realised gains and losses on sale of securities available for sale are as follows:

Edgar Filing: Patni Computer Systems LTD - Form 20-F

	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2010
Dividends from securities available for sale	\$ 11,510,937	\$ 10,425,493	\$ 11,732,650
Gross realised gains on sale of securities available for sale	10,477,436	9,703,109	5,806,279
Gross realised losses on sale of securities available for sale	745,788	234,642	203,154

5.3 Maturity profile of investment securities classified as available-for-sale and held-to-maturity are as follows as of December 31, 2010:

	Cost of Purchase	Fair Value
<b>Available for Sale :</b>		
Mutual Fund Units (Fixed Maturity)		
- Within one year	\$ 155,993,986	\$ 157,039,649
	<b>\$ 155,993,986</b>	<b>\$ 157,039,649</b>
<b>Held to Maturity :</b>		
Term deposit	\$ 3,087,383	
	<b>\$ 3,087,383</b>	

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****5 Investments (Continued)****5.4** Investment securities are held in the following mutual fund and other investment schemes:

As of	December 31, 2009	December 31, 2010
<b>Available for Sale Securities</b>		
HDFC Mutual Fund	\$ 34,385,614	\$ 14,708,649
IDFC Mutual Fund	68,953,565	19,827,133
Kotak Mutual Fund	31,139,138	37,284,728
Birla Sunlife Mutual Fund	41,763,517	24,136,378
Reliance Mutual Fund	36,770,299	21,323,306
ICICI Prudential Mutual Fund	34,643,289	37,646,505
Tata Mutual Fund	40,274,464	10,467,497
Religare Mutual Fund	14,045,079	17,000,072
Deutsche Mutual Fund	43,321,081	
Franklin Templeton Mutual Fund	1,667,407	
Fortis Mutual Fund	13,019,007	
HSBC Mutual Fund	4,153,983	
JM Financial Mutual Fund	1,051,789	
DSP Blackrock Mutual Fund		43,378,558
	<b>\$ 365,188,233</b>	<b>\$ 225,772,826</b>
<b>Other Investments:</b>		
<b>Investment in Certificates of Deposit with Banks</b>		
Canara Bank	\$ 10,659,695	\$ 5,505,621
Corporation Bank		10,642,768
Punjab National Bank		5,512,327
HDFC Bank		5,505,621
State Bank of Bikaner and Jaipur		5,502,936
Union Bank of India		5,580,190
Andhra Bank		5,501,588
State Bank of Travancore		5,504,279
Syndicate Bank		5,510,984
<b>Total</b>	<b>\$ 10,659,695</b>	<b>\$ 54,766,314</b>
<b>Others</b>	\$ 10,211	\$ 10,626
	<b>\$ 10,211</b>	<b>\$ 10,626</b>
<b>Total</b>	<b>\$ 375,858,138</b>	<b>\$ 280,549,767</b>

Edgar Filing: Patni Computer Systems LTD - Form 20-F

**Held to Maturity**

Non-Convertible Debentures		5,374,033		
NABARD Term Deposit		2,966,595	\$	3,087,383
<b>Total</b>	<b>\$</b>	<b>8,340,628</b>	<b>\$</b>	<b>3,087,383</b>

In June 2010, the Company redeemed investment in Non convertible debentures classified as Held to maturity . The carrying value of the Non Convertible debenture was \$5,382,131 and was redeemed at cost. The realized gain / (loss) on redemption was \$ Nil. This investment was redeemed before its maturity date by tendering it to the arranger at

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

par value due to corporate restructuring proposal by the issuer resulting in triggering of mandatory pre-payment.

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****6 Accounts receivable**

6.1 Accounts receivable consist of the following:

As of	December 31, 2009		December 31, 2010	
Receivables	\$	112,296,848	\$	125,194,715
Less: Allowances for doubtful accounts		(2,887,262)		(3,577,370)
	\$	<b>109,409,586</b>	\$	<b>121,617,345</b>

6.2 The activity in the allowance for doubtful accounts receivable for the years ended December 31, 2008, 2009 and 2010 is as follows:

As of	December 31, 2008		December 31, 2009		December 31, 2010	
Allowance for doubtful accounts as of the beginning of the year	\$	2,327,490	\$	2,922,642	\$	2,887,262
Additional provision (net of recoveries) made during the year		1,561,630		2,269,998		615,092
Accounts receivable written off against the allowance during the year		(844,935)		(2,379,866)		
Foreign Currency translation adjustment		(121,543)		74,488		75,016
Allowance for doubtful accounts as of the end of the year	\$	<b>2,922,642</b>	\$	<b>2,887,262</b>	\$	<b>3,577,370</b>

**7 Unbilled revenue and billings in excess of costs and estimated earnings on uncompleted contracts**

As of	December 31, 2009		December 31, 2010	
Cost incurred on uncompleted contracts	\$	60,800,956	\$	40,343,460
Estimated earnings		34,211,471		32,476,123
		95,012,426		72,819,583
Less: Billings to date		(80,992,935)		(60,010,134)
	\$	14,019,491	\$	12,809,449
Included in the accompanying balance sheet under the following captions:				
Unbilled revenue		19,737,311		30,730,943
Billings in excess of costs and estimated earnings on uncompleted contracts		(5,717,820)		(17,921,494)
	\$	<b>14,019,491</b>	\$	<b>12,809,449</b>





Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****8 Other assets**

Other assets consist of the following:

As of	December 31, 2009	December 31, 2010
Advances to vendors	\$ 984,491	\$ 601,458
Refundable security deposit	6,247,167	6,905,981
Deferred cost in respect of revenue arrangements	3,341,877	3,296,604
Due from employees	803,557	1,087,260
Derivative contracts	2,400,791	5,177,058
Leasehold Land	17,815,804	18,893,247
Advance for leasehold land	5,579,690	5,806,872
Advance for investments		3,355,705
Deposit with tax authorities	5,464,456	7,413,837
Service tax receivable		1,730,295
Others	586,198	455,704
	<b>\$ 43,224,031</b>	<b>\$ 54,724,021</b>
Less : Other current assets		
Advances to vendors	(984,491)	(601,458)
Refundable security deposit	(3,137,830)	(3,643,553)
Deferred cost in respect of revenue arrangements	(3,341,877)	(2,288,064)
Due from employees	(779,962)	(1,061,783)
Derivative contracts	(2,400,791)	(5,177,058)
Deposit with tax authorities	(5,464,456)	
Advance for investments		(3,355,705)
Service tax receivable		(1,730,295)
Others	(586,198)	(455,704)
	<b>\$ (16,695,605)</b>	<b>\$ (18,313,620)</b>
Other assets	<b>\$ 26,528,426</b>	<b>\$ 36,410,401</b>

**9 Property, plant and equipment****9.1** Property, plant and equipment consists of the following:

As of	December 31, 2009	December 31, 2010
-------	----------------------	----------------------

Edgar Filing: Patni Computer Systems LTD - Form 20-F

Land	\$	3,676	\$	3,826
Building		78,456,910		81,188,718
Leasehold improvements		7,875,532		7,797,994
Computer Hardware and other service equipment		52,152,209		53,678,147
Computer Software		35,554,632		50,707,944
Furniture and fixtures		22,185,317		22,741,804
Other equipment		42,671,510		42,597,063
Vehicles		1,389,021		1,226,247
Capital work-in-progress		19,210,742		10,621,948
Capital advances		3,943,797		4,186,650
		263,443,346		274,750,341
Less: Accumulated depreciation and amortization		(121,391,139)		(138,513,887)
	\$	<b>142,052,207</b>	\$	<b>136,236,454</b>

F-30

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****9 Property, plant and equipment (Continued)**

9.2 Depreciation and amortization on property, plant and equipment and amortization of computer software included in depreciation and amortization of property, plant and equipment is as follows :

	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2010
Depreciation and amortization	\$ 23,254,443	\$ 22,004,791	\$ 23,111,049
Amortization of computer software	4,432,496	4,246,801	6,739,184

Unamortized computer software cost as at December 31, 2009 and ended 2010 amounted to \$7,999,468 and \$15,306,570, respectively.

**10 Goodwill and intangible assets**

10.1 Intangible assets as at December 31, 2009 and 2010 consist of the following:

As of	December 31, 2009	December 31, 2010
Customer related intangibles	\$ 14,037,795	\$ 15,237,814
Technology related intangibles	497,879	497,879
Marketing related intangibles		617,024
Intellectual property rights	21,448,600	33,912,200
Foreign currency translation adjustment	(310,371)	78,217
	<b>35,673,903</b>	<b>50,343,134</b>
Less: Accumulated amortization	(12,779,112)	(18,114,605)
	<b>\$ 22,894,791</b>	<b>\$ 32,228,529</b>

During 2007, Patni, through its wholly owned subsidiary, Patni USA, acquired from one of its major customer, the worldwide rights for a software Proprietary Intellectual Property Rights ( IPR ) that enables communication service providers to offer customer management, retail point-of-sale and billing services for a variety of products and services. Cost of acquisition of the IPR amounting to \$20,368,600 has been capitalized as an intangible asset and is being amortized over a period of ten years. The Company is using this intellectual property for the purposes of software licensing, provision of reusable IP-led IT services, managed services and provision of hosted or software-as-a-service solutions. A royalty of 5% is payable to seller on such sales.

During 2009, due to adverse market conditions, the Company reviewed the recoverability of the carrying amount of the IPR. Based on the results of the recoverability test, the sum of the undiscounted cash flows of IPR expected to result from its use exceeded the carrying amount as at December 31, 2009. These undiscounted future cash flows were revised from previous periods to reflect current prevailing economic conditions. The Company concluded that as the undiscounted cash flows expected to be received from the continuing use of IPR exceeded its carrying value a comparison of the carrying value of the asset to its fair value was not required.

As of and during the year ended December 31, 2010, there were no significant adverse events or changes in circumstance that indicated that the carrying amount of the IPR is not

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

recoverable. Accordingly, the Company has not performed a detailed evaluation of recoverability of this IPR during 2010.

**10 Goodwill and intangible assets (Continued)**

10.2 In June 2010, Patni, through its wholly owned subsidiary, Patni UK, acquired from one of its customer, an existing software Intellectual Property Rights ( IPR ) which is used for education sector management in UK and Ireland. Cost of acquisition of the IPR and marketing rights amounting to \$12,013,600 has been capitalized as an intangible asset and is being amortized over a period of seven years. The Company intends to increase the revenue by sale of licenses in certain geographies along with significant use in horizontals other than the education learning domain.

10.3 Amortization for the years ended December 31, 2008, 2009 and 2010 amounted to \$4,457,529, \$4,246,801 and \$5,335,494, respectively. The estimated amortization for the intangible assets, for the next five years will be as follows:

	2011	2012	2013	2014	2015
Amortization	\$ 5,705,398	\$ 5,268,087	\$ 5,177,168	\$ 5,131,722	\$ 4,435,265

10.4 The movement in goodwill balance is given below:

	December 31, 2009	December 31, 2010
Balance at beginning of the year	\$ 65,309,045	\$ 65,838,531
Add: Addition		\$ 4,041,635
Foreign currency translation adjustment	529,486	(218,708)
Balance at end of the year	\$ 65,838,531	\$ 69,661,458

Goodwill as at December 31, 2009 and December 31, 2010 includes \$5,231,218 and \$5,099,412, respectively which is deductible for tax purposes as per local taxation laws in the United Kingdom. Goodwill as at December 31, 2009 and December 31, 2010 includes \$Nil and \$1,536,978, respectively which is deductible for tax purposes as per local taxation laws in the United States of America.

10.5 Goodwill as of December 31, 2009 and 2010 has been allocated to the following reportable segments:

Edgar Filing: Patni Computer Systems LTD - Form 20-F

Segment	December 31, 2009	December 31, 2010
Financial services	\$ 2,594,374	\$ 2,594,374
Insurance		\$ 4,041,635
Communication, Media and Utilities	54,985,799	54,767,091
Manufacturing, Retail and Distribution	8,258,358	8,258,358
<b>Total</b>	<b>\$ 65,838,531</b>	<b>\$ 69,661,458</b>

F-32

---

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****11 Change in estimate**

11.1 The US Internal Revenue Service ( IRS ) completed its assessment of tax returns for the years ended 2003 and 2004 of Patni USA and for the years ended March 31, 2003, 2004 and 2005 of the US branch of the Company in 2008, and completed its assessment of tax returns for the years ended 2005 and 2006 of Patni USA in 2009. Based on the completion of assessment of these years, the Company reviewed the adequacy of the previously established tax exposure reserves with respect to these years and re-measured the established tax positions for the latter years based on the experience gained from the tax examination. Accordingly, the following amounts have been included in the income statement for the fiscal year ended December 31, 2009 as a change in estimate:

	December 31, 2008	December 31, 2009	December 31, 2010
Reduction of accrual for payroll taxes (1)	\$ (2,769,567)	\$ (1,157,726)	\$
Reduction in interest expense (2)	(6,497,329)	(1,616,046)	
Increase in Interest expense	560,507		
Reduction in other expense (3)	(1,092,687)	(231,545)	
Reduction in income taxes - current	(12,496,744)	(9,423,496)	
Increase in income taxes - deferred	4,112,604	1,109,509	
	<b>\$ (18,183,216)</b>	<b>\$ (11,319,304)</b>	<b>\$</b>

---

(1) Included under cost of revenues

(2) Included under Interest expense reversed

(3) Included under other income/expense

During the year 2009, the Company received a favorable order from the Indian Income Tax Appellate Tribunal allowing the set off of certain losses against business income. Based on this order, the Company has reversed the tax provisions amounting to \$2,459,012, which has been included in the income statement for the fiscal year ended December 31, 2009.

11.2 As per the Company's practice, it has finalized the amount of incentive payable to the employees for the fiscal year December 31, 2009 based on completion of employee appraisals including final determination of key operating parameters applicable to each employee and business unit during the year ended December 31, 2010. Accordingly, the Company has reversed incentive accrual amounting to \$10,566,680, which has been included in personnel cost in the consolidated statement of income for the year ended December 31, 2010.

**12 Accrued expenses consist of the following:**

<b>As of</b>	<b>December 31, 2009</b>		<b>December 31, 2010</b>	
Employee costs	\$	36,989,133	\$	36,174,937
Subcontractor accruals		4,548,981		6,907,600
Professional fees payable		2,240,854		2,583,606
Others		12,505,792		14,770,730
	\$	<b>56,284,760</b>	\$	<b>60,436,873</b>

F-33



Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****13 Other liabilities**

Other liabilities consist of the following:

As of	December 31, 2009	December 31, 2010
Deferred revenue	\$ 4,708,171	\$ 4,510,358
Provision for leave pay obligation	13,918,720	12,709,225
Provision for retirement benefits	11,037,384	13,631,245
Capital expenditure payable	1,294,675	1,570,080
Provision for payroll tax matters	362,833	362,833
Interest on corporate taxes and other related expenses	1,862,782	1,467,437
Provision for volume discounts	8,465,731	7,307,137
Advance from customers	1,173,682	1,473,717
Derivative liabilities	7,692,381	6,539,231
Others	6,677,896	8,347,024
	<b>\$ 57,194,255</b>	<b>\$ 57,918,287</b>
Less : Other Current liabilities		
Deferred revenue	(4,708,171)	(4,510,358)
Provision for leave pay obligation	(13,918,720)	(12,709,225)
Provision for retirement benefits	(177,706)	(210,825)
Capital expenditure payable	(1,294,675)	(1,570,080)
Provision for volume discounts	(8,465,731)	(7,307,137)
Advance from customers	(1,173,682)	(1,473,717)
Others	(6,243,402)	(7,729,564)
	(35,982,087)	(35,510,906)
Other liabilities	<b>\$ 21,212,168</b>	<b>\$ 22,407,381</b>

**14 Leases**

14.1 Patni acquires certain vehicles under capital lease for a non-cancelable period of 4 years. The gross amount recorded in property, plant and equipment for such capital leases and the related accumulated depreciation amounted to \$590,972 and \$385,563 as at December 31, 2009 and \$414,415 and \$196,975 as at December 31, 2010, respectively. The depreciation expense in respect of these assets aggregated \$326,267, \$178,897 and \$103,520 for the year ended December 31, 2008, 2009 and 2010, respectively.

14.2 Patni USA has operating lease agreements, primarily for leasing office space, that expire over the next 1-7 years. These leases generally require Patni USA to pay certain executory costs such as taxes, maintenance and insurance. Patni UK has operating lease agreements, primarily for leasing office space, that expire over the next 1-10 years. These leases generally require Patni UK to pay certain executory costs

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

such as taxes, maintenance and insurance. Patni Singapore has operating lease agreements, primarily for leasing office space, that expire over the next 1-6 years. These leases generally require Patni Singapore to pay certain executory costs such as taxes, maintenance and insurance.

14.3 Patni has operating lease agreements, primarily for leasing office and residential premises. These agreements provide for cancellation by either party with a notice period ranging from 30 days to 120 days, after the initial lock-in period, if any. Some leases contain a clause for renewal of the lease agreements. Some leases provide for annual renewal of the lease payments.

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

14.4 Patni Telecom and its subsidiaries have operating leases for office space that expire over the next 1-4 years. These agreements provide for cancellation by either party with a notice period ranging from 30 days to 180 days, after the initial lock-in period, if any.

**14 Leases (Continued)**

14.5 Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) and future capital lease payments as of December 31, 2010 are as follows:

	<b>Capital leases</b>	<b>Operating leases</b>
2011	\$ 100,531	\$ 2,687,541
2012	68,278	1,725,418
2013	51,870	1,602,443
2014	33,695	1,004,513
beyond 2014		1,945,611
Total minimum lease payments	\$ 254,374	\$ 8,965,526
Less: Amount representing interest	(35,737)	
Present value of net minimum capital lease payments	218,637	
Less: Current installments of obligations under capital leases	(82,894)	
Obligations under capital leases, excluding current installments	\$ 135,743	

14.6 Rental expense for all operating leases for the years ended December 31, 2008, 2009 and 2010 was \$ 14,777,332, \$12,377,644 and 11,123,727, respectively.

**15 Fair Value Measurement**

On January 1, 2008, the Company adopted ASC 820 (previously ( SFAS ) No. 157), Fair Value Measurements . As a result, the Company now classifies its inputs used to measure fair value into the following hierarchy:

**Level 1:** Unadjusted quoted market prices in active market.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

**Level 2:** Unadjusted quoted prices in active markets for similar assets or liabilities or Unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active or Inputs other than quoted prices that are observable for the asset or liability.

**Level 3:** Unobservable inputs for the assets or liability.

On January 1, 2008 the Company adopted the provisions of ASC 825 (previously FASB Statement No. 159 - The Fair Value Option for Financial Assets and Financial Liabilities ), which gives the Company the irrevocable option to report most financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in earnings. The Company has not elected the irrevocable option to report its financial assets and financial liabilities at fair value.

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****15 Fair Value Measurement (Continued)**

As of December 31, 2010, the fair value of the Company's financial assets and liabilities that are measured at fair value on recurring basis, by hierarchy, is summarized in the following table:

	Total	Level 1	Level 2	Level 3
<b>Assets :</b>				
<b>Current assets</b>				
Liquid mutual funds	\$ 68,733,177		\$ 68,733,177	
Fixed maturity plan	157,039,649		157,039,649	
Other investments	54,776,941		54,776,941	
Foreign currency exchange derivatives	5,177,058		5,177,058	
Total current assets	\$ 285,726,825			
<b>Liabilities :</b>				
<b>Non-Current liabilities</b>				
Foreign currency exchange derivatives	6,539,231		6,539,231	
Total non-current liabilities	\$ 6,539,231			

**Investments**

The Company's investments consist primarily of investment in debt linked mutual funds and certificates of deposit with banks. Fair value of debt linked mutual funds are based on prices as stated by the issuers of mutual funds and are classified as Level 2. Fair value of investments in certificate of deposits, classified as available for sale is determined using observable market inputs and are classified as Level 2.

**Derivative Financial Instruments**

The Company's derivative financial instruments consist of foreign currency forward exchange and option contracts. Fair value of derivative financial instruments are based on prices as provided by the banks and are classified as Level 2. The fair value is also obtained from independent third party dealers. All of the significant inputs to the third-party valuation models are observable in active markets. Inputs include current market-based parameters such as forward rates, yield curves and credit default swap pricing.

**Assets and liabilities not measured at fair value**

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

The fair value of Company's current assets and current liabilities approximate their carrying value because of their short-term maturity. Such financial instruments are classified as current and are expected to be liquidated within the next twelve months. The fair value of capital lease obligations has been estimated by discounting cash flows based on current rate available to the Company for similar types of borrowing arrangements. The fair value and carrying value of capital lease obligations is set out below:

<b>Capital lease obligations</b>	<b>Fair Value</b>		<b>Carrying value</b>	
At December 31, 2009	\$	202,512	\$	203,081
At December 31, 2010		222,995		218,637

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**16 Derivatives financial instruments**

16.1 The Company enters into foreign currency forward and option contracts ( derivative contracts ) to mitigate the risk of changes in foreign exchange rates on inter-company and end customer accounts receivables, and forecasted sales transactions. At December 31, 2010, the Company s derivative contracts mature within one month upto twenty nine months.

Since there is a direct relationship between the derivative contracts and the currency denomination of the underlying transactions, these derivative contracts are highly effective in hedging the future cash flows. These derivative contracts meet the criteria for cash flow hedge accounting treatment and, accordingly, the effective portion of gains or losses in respect of these derivative contracts are included in other comprehensive income/(loss) and are recognized in the consolidated statement of income upon occurrence of the underlying hedged transaction.

In respect of forward contracts with maturities less than or equal to 18 months and designated as a cash flow hedge, the hedge effectiveness is assessed based on changes in fair value attributable to changes in spot prices. Accordingly, the changes in the fair value of the contract related to the changes in the difference between the spot price and the forward or futures price is excluded from assessment of hedge effectiveness and are recognized in consolidated statements of income.

In respect of all range forward contracts and other forward contracts maturing beyond 18 month period and designated as a cash flow hedge, the hedge effectiveness is assessed based on overall changes in fair value, and the effective portion of gains or losses are included in other comprehensive income/(loss). Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in consolidated statement of income.

The Company discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting cash flows attributable to the hedged risk, the derivative expires or is sold, terminated, or exercised. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in the consolidated statement of income. When it is probable that a forecasted transaction will not occur, the Company discontinues hedge accounting and recognizes immediately in the consolidated statement of income gains and losses that were accumulated in other comprehensive income/(loss) related to the hedging relationship.

In addition, the Company enters in to certain foreign exchange derivative contracts that are not accounted for as hedges under the FASB guidance to hedge the foreign exchange risks related to balance sheet items such as foreign currency receivables. Realized gains or losses and changes in the fair value of these derivative contracts are recorded in the consolidated statement of income.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

The Company had net gains (net of taxes) of \$517,975 and \$978,950 related to cash flow hedges deferred in accumulated other comprehensive income/(loss) as at December 31, 2009 and 2010, respectively.

At December 31, 2009 and 2010, \$5,987,912 and \$5,671,837 (net of taxes), of deferred gains on derivative instruments accumulated in other comprehensive income are expected to be reclassified to earnings during the next 12 months. There were no cash flow hedges



Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

which were discontinued during the period because of non-occurrence of forecasted transaction.

16.2 The following table presents the aggregate contracted principal amounts of the Company's derivative contracts outstanding:

	Currency	December 31, 2009	December 31, 2010
Forward contracts, sell	USD	309,584,551	314,325,000
Forward contracts, sell	JPY	875,000,000	500,000,000
Forward contracts, sell	GBP	2,938,000	8,730,000
Foreign currency purchased options, sell	USD	10,000,000	

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****16 Derivatives financial instruments (Continued)**

The following table summarizes the location and fair value of outstanding derivative instruments in the consolidated balance sheets segregated by type of contract, by assets and liabilities and by designation:

	Location in Consolidated balance sheet	Fair value December 31, 2009	Fair value December 31, 2010
<b>Derivatives designated as hedging instrument</b>			
Foreign currency exchange contracts	Other Current assets	\$ 2,199,892	\$ 4,223,950
Foreign currency exchange contracts	Other liabilities	7,692,381	6,539,231
<b>Derivatives not designated as hedging instrument</b>			
Foreign currency exchange contracts	Other Current assets	\$ 200,899	\$ 953,108

**Derivatives not designated as hedging instrument**

	Location of (Gain)/ Loss Recognized in Consolidated statement of income	Amount of (Gain)/ Loss Recognized in income December 31, 2009	December 31, 2010
Foreign currency exchange contracts (Note a)	Foreign exchange (gain)/loss, net	\$ (1,445,738)	\$ (8,777,949)

a) These foreign currency exchange contracts were entered into to hedge the fluctuations in foreign exchange rates of recognized balance sheet items such as inter-company and end-customer receivables, and were not originally designated as hedges. Realized (gains)/ losses and changes in the fair value of these derivatives are recorded in foreign exchange (gains)/ losses, net in the consolidated statements of income.

The following table summarizes the location and amount of gains and losses on derivative instruments in the consolidated statements of income segregated by type of contract and designation for the year ended December 31, 2010:

<b>Derivatives in Cash Flow Hedging Relationship</b>	<b>Amount of (Gains)/ Loss Recognized in OCI on Derivatives (Effective portion)</b>	<b>Location of (Gain)/ Loss Reclassified from Accumulated OCI into Income (Effective portion)</b>	<b>Amount of (Gain)/ Loss Reclassified from Accumulated OCI into Income (Effective portion)</b>	<b>Location of (Gain)/ Loss Recognized in Income on Derivatives (Ineffective portion and Amount Excluded from Effectiveness Testing)</b>	<b>Amount of (Gain)/ Loss Recognized in income on Derivative (Ineffective portion and Amount Excluded from Effectiveness Testing)</b>
Foreign currency exchange contracts	\$ (11,440,147)	Foreign exchange (gain)/ loss	\$ (10,979,172)	Foreign exchange (gain)/loss net	\$ (900,495)

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****16 Derivatives financial instruments (Continued)**

The following table summarizes the location and amount of gains and losses on derivative instrument in the consolidated statement of income segregated by type of contract and designation for the year ended December 31, 2009:

Derivatives in Cash Flow Hedging Relationship	Amount of (Gains)/ Loss Recognized in OCI on Derivative (Effective portion)	Location of (Gain)/ Loss Reclassified from Accumulated OCI into Income (Effective portion)	Amount of (Gain)/ Loss Reclassified from Accumulated OCI into Income (Effective portion)	Location of (Gain)/ Loss Recognized in Income on Derivatives (Ineffective portion and Amount Excluded from Effectiveness Testing)	Amount of (Gain)/ Loss Recognized in income on Derivative (Ineffective portion and Amount Excluded from Effectiveness Testing)
Foreign currency exchange contracts	\$ (12,330,273)	Foreign exchange (gain)/ loss, net	\$ 18,199,724	Foreign exchange (gain)/loss net	\$ 1,006,930

The Company mitigates the credit risk of these derivatives by transacting with highly rated counterparties in India which are major banks. As of December 31, 2010, the Company has evaluated the credit and non-performance risks associated with the counterparties, and believes that the impact of the credit risk associated with the outstanding derivatives was insignificant.

**17 Shareholders equity***Common shares*

17.1 The Company has only one class of equity shares. For all matters submitted to vote in the shareholders meeting, every holder of equity shares (except holders of American Depositary Shares - ADSs), as reflected in the records of the Company shall have one vote in respect of each share held. In the event of liquidation of the affairs of the Company, all preferential amounts, if any, shall be discharged by the Company. The remaining assets of the Company after such discharge shall be distributed to the holders of equity shares in proportion to the number of shares held by them.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

17.2 In December 2005, pursuant to an Initial Public Offering of American Depositary Shares, the Company issued 6,156,250 ADSs (12,312,500 common shares, as one ADS is equal to two equity shares of the Company) for a net proceeds of \$117,021,852 (after adjusting for direct expenses relating to ADSs of \$8,196,274). The common shares represented by the ADSs are similar to other common shares except for voting rights. Under the depository agreement, the depository of ADSs shall vote as directed by the Board of Directors of the Company.

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**17 Shareholders equity (Continued)**

*Common shares (Continued)*

17.3 In February 2008, the Board of Directors of the Company approved a proposal to repurchase fully paid equity shares upto 10% of the paid up capital and free reserves, at a maximum price of Rs. 325 per equity share, for an aggregate amount upto Rs. 2,370,000,000. In April 2008, necessary public announcements were made for buyback proposal which was approved in accordance with the provisions of Section 77A, 77AA, 77B and other applicable provisions of the Indian Companies Act, 1956 and the provisions of Securities and Exchange Board of India (Buy-back of Securities) Regulations, 1998 ( Buy Back Regulations ). Accordingly, the Company repurchased a total of 10,957,082 equity shares through the Bombay Stock Exchange and the National Stock Exchange for an aggregate consideration of Rs. 2,370,000,000 (\$53,062,342) being 100% of the amount authorised for buy back. Subsequently, the Company extinguished such equity shares as per the requirements of Section 77A of the Companies Act, 1956. Retained earnings include profits aggregating Rs. 21,914,164 (\$449,521) set aside as Capital Redemption Reserve as required by the Indian Companies Act, 1956 pursuant to the repurchase, which can be utilised only for the purpose of issuing fully paid bonus shares of the Company.

*Retained earnings and dividends*

17.4 Retained earnings as of December 31, 2009 and 2010 include profits aggregating \$ 8,365,300 and \$ 16,244,630, respectively which are not distributable as dividends under Indian Companies Act, 1956 (Companies Act).

17.5 The ability of Patni to declare and pay dividend under the Companies Act, is determined by its distributable profits as shown by its statutory accounts prepared in accordance with Indian GAAP. When Patni wishes to declare dividends, it is required as per the Companies Act, to transfer upto 10% of its net income (after the deduction of any accumulated deficit) computed in accordance with Companies Act to a general reserve before a dividend can be declared. Also, Indian law on foreign exchange governs the remittance of dividends outside India.

17.6 The Company's shareholders approved final dividend of Rs. 3/- per equity share of Rs. 2/- each in Annual General Meeting held on June 23, 2010. The Company's Board of Directors approved special interim dividend of Rs. 63/- per equity share of Rs. 2/- each in their meeting held on August 13, 2010. The total amount paid was \$216,441,698 (including dividend tax of \$30,856,050) during fiscal year ended December 31, 2010.

Edgar Filing: Patni Computer Systems LTD - Form 20-F

17.7 At December 31, 2009 and 2010, the foreign currency translation adjustment loss included in other comprehensive income amounted to \$23,036,028 and \$5,005,977, respectively.

F-41

---

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**18 Employee stock compensation plans**

18.1 On June 30 2003, Patni established the Patni ESOP 2003 plan ( the plan ). Under the plan, the Company is authorized to issue up to 11,142,085 equity shares to eligible employees. Employees covered by the Plan are granted an option, which may be based on service or performance criteria, to purchase shares of the Company subject to the requirements of vesting. The options vest in a graded manner from one year to four years and expire at the end of five years from the date of vesting. The Stock based compensation expense is recognized over the vesting term of each separately vesting portion of an award (accelerated amortization method). A compensation committee constituted by the Board of Directors of the Company administers the plan. The plan has been amended to enable the Company to issue up to 2,000,000 ADR linked options (wherein one ADR linked option is equal to two equity shares of the Company) to the employees of the Company as well as its subsidiaries. Accordingly, Patni ESOP 2003- Revised 2009 has come into force with effect from June 21, 2006.

In June 2009, the shareholders authorised the Company to issue additional 8,000,000 equity shares to eligible employees under the Patni ESOP 2003 - Revised 2009 plan.

18.2 The weighted average grant date fair value of options granted during the year ended December 31, 2010 was \$9.21 for equity linked options and \$19.11 for ADR linked options, respectively. The weighted average grant date fair value of options granted during the year ended December 31, 2009 was \$2.42 for equity linked options and \$8.18 for ADR linked options. The weighted average grant date fair value of options granted during the year ended December 31, 2008 was \$2.29 for equity linked options and \$6.51 for ADR linked options.



Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****18 Employee stock compensation plans (Continued)**

18.3 Stock options activity under the plan is as follows:

	Year ended December 31, 2009		Weighted average remaining contractual life (months)
	Shares arising out of options	Exercise price	
Outstanding at the beginning of the year	596,000	\$0.04	89
	350,000	\$2.25	89
	525,525	\$3.16	35
	1,970,276	\$5.51-\$7.35	41
	2,859,026	\$7.55-\$11.18	59
Granted during the period (including 413,905 ADR linked options)	1,830,700	\$0.04	76
	1,540,000	\$2.05-\$2.75	90
	499,600	\$7.55-\$11.18	90
Forfeited during the year	(54,800)	\$0.04	
	(35,145)	\$3.16	
	(146,100)	\$5.51-\$7.35	
	(40,000)	\$2.05-\$2.75	
	(450,900)	\$7.55-\$11.18	
Exercised during the year *	(125,000)	\$0.04	
	(76,000)	\$2.05-\$2.75	
	(212,705)	\$3.16	
	(258,275)	\$5.51-\$7.35	
	(387,625)	\$7.55-\$11.18	
Outstanding at the end of the year	2,246,900	\$0.04	72
	1,774,000	\$2.05-\$2.75	80
	277,675	\$3.16	24
	1,565,901	\$5.51-\$7.35	29
	2,520,101	\$7.55-\$11.18	60
Exercisable at the end of the year	24,000	\$0.04	59
	11,500	\$2.05-\$2.75	59
	277,675	\$3.16	24
	1,523,401	\$5.51-\$7.35	27
	1,232,519	\$7.55-\$11.18	42

Edgar Filing: Patni Computer Systems LTD - Form 20-F

Vested and expected to Vest	2,153,630	\$0.04	72
	1,774,000	\$2.05- \$2.75	80
	277,675	\$3.16	24
	1,565,901	\$5.51-\$7.35	29
	2,520,101	\$7.55-\$11.18	60

---

\* Includes 38,580 options exercised in December 2009 for which shares have not yet been allotted.

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**18 Employee stock compensation plans (Continued)**

18.3 Stock options activity under the plan is as follows: (Continued)

	Year ended December 31, 2010		Weighted average remaining contractual life (months)
	Shares arising out of options	Exercise price	
Outstanding at the beginning of the year	2,246,900	\$0.04	72
	1,774,000	\$2.05 -\$2.75	80
	277,675	3.16	24
	1,565,901	\$5.51-\$7.35	29
	2,520,101	\$7.55-\$11.18	60
Granted during the period (including 142,015 ADR linked options)	1,043,940	\$0.04	90
	60,000	\$7.55-\$11.18	61
Forfeited during the year	(142,728)	\$0.04	
	(19,976)	3.16	
	(121,733)	\$5.51-\$7.35	
	(447,664)	\$7.55-\$11.18	
Exercised during the year	(832,217)	\$0.04	
	(124,000)	\$2.05 -\$2.75	
	(155,846)	3.16	
	(817,156)	\$5.51-\$7.35	
	(325,249)	\$7.55-\$11.18	
Outstanding at the end of the year	2,315,895	\$0.04	59
	1,650,000	\$2.05 -\$2.75	68
	101,853	3.16	17
	627,012	\$5.51-\$7.35	22
	1,807,188	\$7.55-\$11.18	51
Exercisable at the end of the year	264,354	\$0.04	52
	375,000	\$2.05 -\$2.75	50
	101,853	3.16	17
	627,012	\$5.51-\$7.35	22
	1,113,438	\$7.55-\$11.18	37
Vested and expected to vest	2,221,948	\$0.04	60

Edgar Filing: Patni Computer Systems LTD - Form 20-F

1,650,000	\$2.05- \$2.75	68
101,853	\$3.16	17
627,012	\$5.51-\$7.35	22
1,774,787	\$7.55-\$11.18	51

F-44

---

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****18 Employee stock compensation plans (Continued)**

18.4 The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions for the equity linked options.

	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2010
Dividend yield	0.68%-1.09%	1.37% - 1.78%	0.60% - 1.06%
Weighted average dividend yield	0.93%	1.53%	0.68%
Expected life	3.5-6.5 years	3.5 - 6.5 years	3.5 - 6.5 years
Risk free interest rates	7.10%-7.37%	5.94% - 7.21%	6.81% - 7.96%
Volatility	33.01%-39.45%	37.01% - 44.16%	37.69% - 42.84%
Weighted Average Volatility	37.35%	39.42%	41.85%

18.5 The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions for ADR linked

	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2010
Dividend yield	0.68%	1.18%- 1.64%	0.60% - 1.06%
Weighted average dividend yield	0.68%	1.61%	0.64%
Expected life	3.5 - 6.5 years	1.0 - 6.5 years	1.0 - 6.5 years
Risk free interest rates	3.04% - 3.51%	0.52% - 2.96%	0.48% - 2.93%
Volatility	41.36% - 44.76%	42.41% - 50.79%	30.54% - 46.33%
Weighted Average Volatility	42.90%	46.65%	32.14%

18.6 The aggregate intrinsic value of options exercised and fair value of options vested is as follows:

As of	December 31, 2008	December 31, 2009	December 31, 2010
Intrinsic value of options exercised	\$ 119,815	\$ 4,160,884	\$ 16,170,530
Fair value of options vested	5,267,840	2,827,133	7,497,155

Edgar Filing: Patni Computer Systems LTD - Form 20-F

18.7 The intrinsic value of options outstanding, exercisable and expected to vest is as follows:

As of	December 31, 2009	December 31, 2010
Options outstanding	\$ 48,721,276	\$ 43,808,966
Options exercisable	9,025,043	10,136,182
Options vested and expected to vest	47,754,548	42,731,933

18.8 The compensation expense recognized as cost of revenues and selling, general and administrative expense is as follows:

	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2010
Cost of Revenues	\$ 1,526,983	\$ 1,571,630	\$ 2,681,954
Selling, general and administrative expenses	2,370,227	3,736,975	5,943,510

F-45

---

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****18 Employee stock compensation plans (Continued)**

18.9 The simplified method is used to estimate the expected term of the instruments in the option valuation model which is based on the vesting term and contractual term of the option as the Company does not have sufficient historical data on option exercise. Volatility is based on historical volatility in the share price movement of the Company over the expected term.

18.10 As on December 31, 2010, the total compensation cost related to non-vested awards not yet recognized is \$8,102,978 and the weighted average period over which it is expected to be recognized is 14 months.

**19 Income Tax**

19.1 Total income tax expense for the year ended December 2008, 2009 and 2010 were allocated as follows:

	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2010
Income from operations	\$ 5,203,401	\$ 4,758,887	\$ 19,336,313
Shareholders' equity, for			
- unrealized holding gains/(losses) on investment securities	(257,690)	(301,521)	(117,520)
- unrealized gains/(losses) on derivative instruments	(2,201,998)	(20,446)	1,955,555
- pension	107,142	(181,797)	(272,594)
- gratuity	88,655	14,274	(42,722)
- tax benefit arising on exercise of stock options	(16,121)	(814,537)	(1,329,790)
Goodwill and intangible assets	350,310		
<b>Total</b>	<b>\$ 3,273,698</b>	<b>\$ 3,454,860</b>	<b>\$ 19,529,242</b>

19.2 Income tax expense attributable to income from continuing operations consists of the following:

Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2010
---------------------------------	---------------------------------	---------------------------------

Edgar Filing: Patni Computer Systems LTD - Form 20-F

<b>Current taxes</b>						
Domestic	\$	10,376,924	\$	14,091,575	\$	27,637,300
Foreign		4,042,442		(467,451)		6,550,562
		14,419,366		13,624,124		34,187,862
<b>Deferred taxes</b>						
Domestic		(9,562,995)		(9,063,137)		(13,835,511)
Foreign		347,030		197,900		(1,016,038)
		(9,215,965)		(8,865,237)		(14,851,549)
<b>Total</b>	<b>\$</b>	<b>5,203,401</b>	<b>\$</b>	<b>4,758,887</b>	<b>\$</b>	<b>19,336,313</b>

Pre-tax income from domestic and foreign operations is set out below:

		<b>Year ended December 31, 2008</b>		<b>Year ended December 31, 2009</b>		<b>Year ended December 31, 2010</b>
<b>Pre-tax income</b>						
Domestic	\$	79,583,951	\$	98,086,457	\$	138,858,890
Foreign		27,040,695		26,452,194		13,656,307
<b>Total</b>	<b>\$</b>	<b>106,624,646</b>	<b>\$</b>	<b>124,538,652</b>	<b>\$</b>	<b>152,515,195</b>

F-46



Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****19 Income Tax (Continued)**

19.3 The tax effect of temporary differences that give rise to significant portion of deferred tax assets and liabilities are presented below:

	December 31, 2009	December 31, 2010
<b>Deferred tax assets:</b>		
Leave pay obligation, accrued incentives, pension obligations, etc	\$ 12,534,005	\$ 11,826,375
Accounts receivable	988,216	865,753
Deferred revenue	506,774	386,966
Carry forward business and other losses	4,862,055	11,079,144
Payroll taxes and interest on payroll and corporate taxes	931,668	830,556
ESOP compensation costs	2,193,300	2,188,163
Others	205,000	175,618
Unrealised loss on derivatives	2,222,444	1,325,108
Billings in excess of costs and estimated earnings in excess of billings on uncompleted contracts	59,059	534,036
Mat credit entitlement (1)	23,023,086	40,845,386
Gross deferred assets	47,525,607	70,057,105
Less: Valuation allowance	(3,600,737)	(10,281,624)
<b>Total deferred tax assets</b>	<b>\$ 43,924,870</b>	<b>\$ 59,775,481</b>
<b>Deferred tax liabilities:</b>		
Property, plant and equipment	(1,363,190)	(3,484,358)
Undistributed earnings of US branch	(1,809,554)	(1,529,585)
Unrealised gain on available for sale securities	(542,884)	(422,902)
Intangible assets	(1,930,391)	(1,600,773)
Tax deduction available for notional interest deduction	(499,850)	(499,851)
Tax deductible goodwill	(732,371)	(1,055,263)
<b>Total deferred tax liabilities</b>	<b>\$ (6,878,240)</b>	<b>\$ (8,592,732)</b>
<b>Net Deferred tax assets</b>	<b>\$ 37,046,630</b>	<b>\$ 51,182,749</b>
<b>Classified as</b>		
<b>Deferred tax assets</b>		
Current	\$ 9,418,969	\$ 35,541,868
Non current	28,732,581	16,621,609
<b>Deferred tax liabilities</b>		
Current		
Non current	1,104,920	980,728
<b>Net Deferred tax assets</b>	<b>\$ 37,046,630</b>	<b>\$ 51,182,749</b>

---

(1) Pursuant to the changes in the Indian income tax laws, Minimum Alternate Tax (MAT) has been extended to income in respect of which deduction is claimed under section 10A of the Indian Income tax Act, 1961. Consequently, the Company has calculated the tax liability for current domestic taxes after considering MAT. The excess tax paid under MAT provisions over and above normal tax liability can be carried forward and set-off against future tax liabilities computed under normal tax provisions. Accordingly, deferred tax asset of \$ 7,780,124, \$9,824,046 and \$16,884,895 has been recognized during fiscal year December 31, 2008, 2009 and 2010, respectively in respect of MAT credit entitlement, which can be carried forward for a period of 10 years.

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**19 Income Tax (Continued)**

19.4 In assessing the realisability of deferred tax assets, management considers whether it is more likely than not, that some portion, or all, of the deferred tax assets will not be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences and loss carryforwards are deductible. Management considers the reversal of taxable temporary differences, the projected future taxable income, tax planning strategies and impact of tax exemptions currently available to the Company, in making this assessment. Based on the level of expected taxable incomes over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not, the Company will realise the benefits of those deductible differences, net of existing valuation allowances. Taxable income for the years 2008, 2009 and 2010 aggregated \$35,969,214, \$57,279,749 and \$59,874,581, respectively.

The operating loss of the subsidiaries in the UK amounting to \$18,047,300 can be carried forward for an indefinite period, the operating loss of the subsidiaries in the US amounting to \$ 2,539,151 will expire at various dates through December 31, 2030, the operating loss of the subsidiary in Mexico amounting to \$2,056,410 will expire at various dates through December 31, 2020, the operating loss of the subsidiary in Singapore amounting to \$4,353,319 can be carried forward for an indefinite period and the operating loss of subsidiary in Japan amounting to \$480,196 can be carried forward till December 31, 2015.

19.5 Deferred tax liability in respect of undistributed earnings of Patni's foreign subsidiaries as of December 31, 2010 aggregating \$20,302,668 has not been recognised in the financial statements, as such earnings are considered to be indefinitely re-invested. As of December 31, 2010, the undistributed earnings of these subsidiaries were approximately \$ 61,120,399.

19.6 The net change in valuation allowance in the year 2010 is mainly on account of creation of valuation allowance in respect of deferred tax asset recorded on business loss carryforwards for subsidiaries in UK, Mexico, Singapore and Japan amounting to \$ 1,616,082, \$362,155, \$598,801 and \$201,682, respectively. The Company has also set up a valuation allowance on deferred tax asset of Patni Telecom India (formerly known as Cymbal Information Services Pvt. Ltd.) amounting to \$1,839,375, primarily comprising MAT credit entitlement. Additionally, the Company has set up a valuation allowance on deferred tax asset recorded on long term capital loss arising on investment in available for sale securities amounting to \$2,062,792.

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****19 Income Tax (Continued)**

19.7 The reported income tax expense attributable to income from continuing operations differed from amounts computed by applying the enacted tax rate to income of Patni from continuing operations before income-taxes as a result of the following:

	December 31, 2008	December 31, 2009	December 31, 2010
Income before income taxes	\$ 106,624,646	\$ 124,538,652	\$ 152,515,195
Weighted average enacted tax rate in India	33.99%	33.99%	33.41%
Computed expected income tax expense	\$ 36,241,717	\$ 42,330,688	\$ 50,956,280
Effect of:			
Income exempt from tax	(31,274,645)	(30,673,751)	(40,368,768)
Changes in valuation allowance	(501,719)	3,600,737	6,680,887
Carry forward losses on long term capital loss		(411,810)	(2,062,792)
Non deductible expenses	2,837,440	2,002,506	2,346,854
US State taxes, net of federal tax benefit	761,085	1,021,285	471,183
Branch taxes	10,393,012	9,733,131	9,371,248
Reversal of the uncertain tax positions due to the expiration of the statute of limitation		(7,629,429)	(6,735,221)
Foreign income taxed at different rates	921,930	649,042	1,028,054
Change in statutory tax rate on deferred taxes			44,591
Profit on sale of investments taxed at other than statutory rate	(3,076,104)	(3,092,519)	(607,356)
Change to prior year tax expense estimates	(12,496,744)	(9,423,496)	
Reversal of prior year tax		(3,452,757)	(1,845,392)
Others	1,397,430	105,260	56,745
<b>Reported income tax expenses</b>	<b>\$ 5,203,401</b>	<b>\$ 4,758,887</b>	<b>\$ 19,336,313</b>

19.8 The Finance Act, 2009 has extended the availability of the 10-year income tax holiday by a period of one year such that the tax holiday will be available until the earlier of fiscal year ending March 31, 2011 or 10 years after the commencement of a Company's undertaking.

19.9 A substantial portion of profits of the group's India operations is exempt from Indian income tax, being profit from undertakings situated at Software Technology Parks of India ( STPI ) and Special Economic Zones ( SEZ ) in India. Under the tax holiday for STPI units, the tax payer can utilize exemption of profits from income taxes for a period of ten consecutive years. The Company has opted for this exemption for undertakings situated in STPI and these exemptions expire on various dates between years March 31, 2005 and 2011. Additionally, one of the Company's undertaking is eligible for a tax holiday as a Special Economic Zone unit commencing from 2008 onwards in respect of 100% of the export profits for a period of 5 years, 50% of such profits for next 5 years and 50% of the profits for further period of 5 years subject to satisfaction of certain capital investments requirements. The aggregate effect on net income of the above tax holiday and export

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

incentive schemes were \$27,312,225, \$27,145,852 and \$36,642,894 for 2008, 2009 and 2010, respectively. Further, the per share effect of this exemption on net income was \$0.20, \$0.21 and \$0.28 for 2008, 2009 and 2010, respectively.

F-49

---

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****19 Income Tax (Continued)**

19.10 The Company conducts its business globally, and, as a result, the Company and some of its subsidiaries file income tax returns in India, the U.S., and various foreign jurisdictions. The tax years ended March 31, 2000 to March 31, 2010 remain open to examination by the Indian tax authorities. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2007 with regard to the Company's US branch and with regard to Patni USA.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	December 31, 2008	December 31, 2009	December 31, 2010
Beginning Balance	49,333,633	45,871,569	32,371,414
Additions based on tax positions related to current year	9,076,827	8,355,426	8,482,865
Additions for tax positions of prior years	6,251,572		
(Settlement)/Refund	1,211,383	(201,516)	
Reductions for tax positions of prior years	(19,049,718)	(13,675,197)	(1,228,901)
Reductions for tax positions due to lapse of statute of limitation		(8,222,392)	(7,265,081)
Exchange difference	(952,128)	243,524	54,246
Ending Balance	45,871,569	32,371,414	32,414,543

The Company recognizes interest and penalties related to uncertain tax positions in other (expense)/ income. During year ended December 31, 2010, the Company reversed interest net of provision amounting to \$329,913 mainly on account of expiry of statute of limitation with regard to its US Branch for the fiscal year ended March 31, 2007 amounting to \$1,064,244. During year ended December 31, 2009, the Company reversed interest and penalties net of provision amounting to \$1,974,745 mainly on account of reversal of \$1,847,592 arising on account of completion of assessment with IRS for years 2005 and 2006 for Patni USA and \$1,191,530 on account of expiry of statute of limitation with regard to its US Branch for the year ended March 2006. During the year ended December 31, 2008, the Company recognized a reversal of previously recognized interest expense of \$5,448,920 mainly on account of a credit of \$7,590,016 arising on account of settlement with IRS for years 2003 and 2004 for Patni Inc and for the years ended March 2003, 2004 and 2005 for US Branch. As of December 31, 2010 and December 31, 2009, the Company has \$1,467,437 and \$1,797,349 respectively as accrued interest and penalties related to uncertain tax positions.

As of December 31, 2010 the Company had \$30,001,745 of net unrecognized tax benefits arising out of tax positions which would affect the effective tax rate if recognized. Although it is difficult to anticipate the final outcome on timing of resolution of any particular uncertain tax position, the Company believes that the total amount of unrecognized tax benefits will be decreased by \$7,358,137 during the next 12 months due to expiry of statute of limitation.



Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****20 Retirement benefits to employees***Gratuity benefits*

20.1 In accordance with the Payment of Gratuity Act, 1972, Patni provides for gratuity, a defined retirement plan covering all eligible employees. The plan provides a lump sum payment to vested employees at retirement or termination of employment based on the respective employee's defined portion of last salary and the years of employment with the Company.

20.2 Patni India contributes each year to a gratuity fund based upon actuarial valuation performed by an actuary. The fund is administered by Patni through a trust set up for the purpose. All assets of the plan are owned by the trust and comprises investment in government securities, government securities based mutual funds and other securities. The Gratuity Plan of Patni Telecom India is not funded.

20.3 With regard to the Gratuity Plans of Patni India and Patni Telecom India, the following table sets forth the plans' funded status and amounts recognized in the Company's consolidated balance sheets. Measurement dates used to measure fair value of plan assets and benefit obligation is December 31.

As of,	December 31, 2009	December 31, 2010
<b>Change in benefit obligation</b>		
Projected benefit obligation ( PBO ) at January 1,	\$ 5,312,302	\$ 6,493,033
Service cost	953,489	1,086,149
Interest cost	503,480	509,430
Plan amendments		725,130
Translation loss/(gain)	311,964	304,355
Actuarial loss/(gain)	(62,898)	(258,927)
Benefits paid	(525,304)	(964,547)
PBO at December 31,	6,493,033	7,894,623
Fair value of plan assets as at January 1,	4,577,156	5,874,171
Actual return on plan assets	301,786	129,635
Employer contributions	1,251,963	680,203
Benefits paid	(525,304)	(964,547)
Translation gain/(loss)	268,569	256,218
Plan assets at December 31,	5,874,171	5,975,680
Funded status	(618,862)	(1,918,943)



Edgar Filing: Patni Computer Systems LTD - Form 20-F

Accumulated benefit obligation	5,268,278	5,790,689
Amounts recognized in the consolidated balance sheets consists of:		
Provision for Gratuity (included in other current liabilities )	46,324	74,094
Provision for Gratuity (included in other liabilities )	572,538	1,844,849
	\$ 618,862	\$ 1,918,943

F-51

---

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****20 Retirement benefits to employees (Continued)***Gratuity benefits (Continued)*

20.4 Key weighted average assumptions used to determine the benefit obligation were as follows:

	December 31, 2009	December 31, 2010
Discount rate	7.45%	8.90%

For the actuarial valuation at December 31, 2010 compensation levels have been assumed to increase at 10% per annum for the first two years, 8% in next three years and 6% per annum thereafter. For the actuarial valuation at December 31, 2009 compensation levels have been assumed to increase at 6% per annum.

The expected rate of return on assets in future is considered to be 7.50%. This is based on the expectation of the average long-term rate of return to prevail over the next 15 to 20 years on the type of investments prescribed as per the statutory pattern of investments.

20.5 The composition of plan assets is detailed below:

As of ,	December 31, 2009	%	December 31, 2010	%
Central/State Government Securities	\$ 65,380	1%	\$ 64,839	1%
Investment in Government Securities based funds	4,316,604	73%	3,863,700	65%
Public Sector bonds/ Financial Institutions/ Bank bonds/ Term deposits/Rupee Bonds	1,492,187	25%	2,047,141	34%
<b>Total</b>	<b>\$ 5,874,171</b>	<b>100%</b>	<b>\$ 5,975,680</b>	<b>100%</b>

The investments are made in accordance with the prescribed government guidelines. Fair value of government securities based mutual funds are based on prices as stated by the issuers of mutual funds and are classified as Level 2. Fair value of investment in Central/State government securities and public sector bonds/ financial institutions/ bank bonds/ term deposits/ rupee bonds is determined using observable market inputs and are classified as Level 2.

Edgar Filing: Patni Computer Systems LTD - Form 20-F

20.6 Net periodic gratuity cost included the following components:

	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2010
Service cost	\$ 1,094,495	\$ 953,489	\$ 1,086,149
Interest cost	552,411	503,480	509,430
Expected return on assets	(365,565)	(332,202)	(426,949)
Amortization of actuarial (gain) / loss	137,128	(10,711)	100,736
<b>Net gratuity cost</b>	<b>\$ 1,418,469</b>	<b>\$ 1,114,055</b>	<b>\$ 1,269,366</b>

F-52

---

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**20 Retirement benefits to employees (Continued)**

*Gratuity benefits (Continued)*

20.7 Key weighted average assumptions used to determine the net periodic gratuity cost were as follows:

	December 31, 2008	December 31, 2009	December 31, 2010
Discount rate	9.00%	7.45%	7.45%
Expected return on assets	7.50%	7.50%	7.50%

20.8 Patni's expected contribution to gratuity fund for the calendar year 2011 is \$1,528,233. The expected benefit payments for next ten years are as follows:

	2011	2012	2013	2014	2015	2016 -2020
Expected benefit payments	\$ 2,034,519	\$ 2,077,852	\$ 2,084,452	\$ 1,930,604	\$ 2,184,295	\$ 7,722,081

At December 31, 2008, 2009 and 2010, the pre tax amounts in accumulated other comprehensive income / (loss), not yet recognized as a component of net periodic gratuity costs consists of actuarial gain / (loss) and prior service cost on account plan amendment of \$23,977, \$33,407 and (\$637,399), respectively. The estimated actuarial gain / (loss) and prior service cost that will be amortized from other comprehensive income / (loss) in net periodic gratuity cost in fiscal 2011 is (\$213,426).

*Pension benefits*

20.9 Founder directors of Patni India and Executive director in employment with Patni USA are entitled to receive pension benefits upon retirement or on termination from employment at the rate of 50% of their last drawn monthly salary. The pension is payable from the time the eligible director reaches the age of sixty five in respect of Founder directors of Patni India and seventy one in respect of Executive director in employment with Patni USA, and is payable to the directors or the surviving spouse. The liabilities for these pension plans are actuarially

determined and periodically recognized. These plans are not funded.

F-53

---

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****20 Retirement benefits to employees (Continued)***Pension benefits (Continued)*

20.10 With regard to Patni India pension plans, the following table sets forth the plans funded status and amounts recognized in the Company's consolidated balance sheet. Measurement dates used to measure benefit obligation is December 31 for each fiscal year.

As at,	December 31, 2009	December 31, 2010
<b>Change in benefit obligation</b>		
PBO at January 1,	\$ 1,922,687	\$ 2,411,522
Service cost		
Interest cost	168,928	178,148
Translation loss/(gain)	93,799	99,114
Actuarial loss/(gain)	352,623	(329,553)
Benefits paid	(126,515)	(133,929)
PBO at December 31,	2,411,522	2,225,302
Funded status	(2,411,522)	(2,225,302)
Accumulated benefit obligation	\$ 2,411,522	\$ 2,225,302
Amounts recognized in the consolidated balance sheets consists of:		
Provision for Pension (included in other current liabilities )	131,384	136,731
Provision for Pension (included in other liabilities )	2,280,138	2,088,571
	\$ 2,411,522	\$ 2,225,302

20.11 Key weighted average assumptions used to determine benefit obligation for Patni India pension plan were as follows:

	December 31, 2009	December 31, 2010
Discount rate	7.45%	8.90%
Increase in compensation levels	0%	0%

20.12 Key weighted average assumptions used to determine benefit obligation for Patni India pension plan were as follows:

Edgar Filing: Patni Computer Systems LTD - Form 20-F

	Year ended December 31, 2008		Year ended December 31, 2009		Year ended December 31, 2010
Service cost					
Interest cost	181,491	\$	168,928	\$	178,148
Amortization					2,914
Net pension cost	\$	181,491	\$	168,928	\$ 181,062

F-54

---

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**20 Retirement benefits to employees (Continued)**

*Pension benefits (Continued)*

20.13 Key weighted average assumptions used to determine net periodic pension cost for the Patni India pension plan were as follows:

	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2010
Discount rate	9.00%	7.45%	8.90%
Increase in compensation levels	0.00%	0.00%	0.00%

20.14 The expected benefit payments for next ten years are as follows:

	2011	2012	2013	2014	2015	2016-2019
Expected benefit payments	\$ 136,734	\$ 136,734	\$ 136,734	\$ 136,734	\$ 136,734	\$ 1,298,971

20.15 With regard to Patni USA pension plan, the following table sets forth the plan's funded status and amounts recognized in the Company's consolidated balance sheet. Measurement dates used to make up benefit obligation is December 31 for each fiscal year.

As at,	December 31, 2009	December 31, 2010
<b>Change in benefit obligation</b>		
PBO at January 1,	\$ 7,273,000	\$ 8,007,000
Service cost	201,000	215,000
Interest cost	336,000	370,000
Actuarial loss/ (Gain)	197,000	895,000
PBO at December 31,	8,007,000	9,487,000
Funded status	(8,007,000)	(9,487,000)
Accumulated benefit obligation	\$ 5,469,000	\$ 7,128,000
Amounts recognized in the consolidated balance sheets consists of:		
Provision for Pension (included in other liabilities )	8,007,000	9,487,000



\$ 8,007,000 \$ 9,487,000

20.16 Key weighted average assumptions used to determine benefit obligation for Patni USA pension plan were as follows:

	<b>December 31, 2009</b>	<b>December 31, 2010</b>
Discount rate	4.5%	4.50%
Increase in compensation levels	10%	10%

F-55

---

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****20 Retirement benefits to employees (Continued)***Pension benefits (Continued)*

20.17 Net periodic pension cost of Patni USA pension plan included the following components:

	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2010
Service cost	\$ 200,000	\$ 201,000	\$ 215,000
Interest cost	318,000	336,000	370,000
Amortization			
Net pension cost	\$ 518,000	\$ 537,000	\$ 585,000

20.18 Key weighted average assumptions used to determine net periodic pension cost for the Patni USA pension plan were as follows:

	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2010
Discount rate	4.5% per annum	4.5% per annum	4.5% per annum
Increase in compensation levels	10% per annum	10% per annum	10% per annum

20.19 At December 31, 2008, 2009 and 2010, the pre tax amounts in accumulated other comprehensive income / (loss), not yet recognized as a component of net periodic pension costs consists of actuarial loss of (\$168,616), (\$713,580) and (\$1,286,255), respectively The estimated actuarial gain/ (loss) that will be amortized from other comprehensive income / (loss) in net periodic pension cost in fiscal 2011 is (\$136,000).

*Provident Fund*

20.20 All eligible employees of Patni India and Patni Telecom India receive provident fund benefits through a defined contribution plan in which both the employee and employer make monthly contributions to the plan at 12% each of the covered employee's defined portion of salary. The Company has no further obligations under the plan beyond monthly contribution. Patni contributes to the Provident Fund Plan

maintained by the Government of India.

20.21 Patni contributed \$ 4,251,292, \$4,151,565 and \$ 4,601,080 to the Provident Fund Plan in 2008, 2009 and 2010, respectively.

F-56

---

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements**

**21 Segment Information**

21.1 The Company's operations relate to providing IT services and solutions, delivered to customers operating in various industry segments. Accordingly, revenues represented along industry classes comprise the principal basis of segmental information set out in these consolidated financial statements. Secondary segmental reporting is performed on the basis of the geographical location of the customers. The accounting policies consistently used in the preparation of the consolidated financial statements are also consistently applied to individual segment information.

21.2 Industry segments of the Company comprise financial services, insurance services, manufacturing, retail and distribution companies, communications, media and utilities, and technology practice (comprising of product engineering). The Company evaluates segment performance and allocates resources based on revenue growth. Revenue in relation to segments is categorized based on items that are individually identifiable to that segment. Costs are not specifically allocable to individual segment as the underlying resources and services are used interchangeably. Property, plant and equipment used in the Company's business or liabilities contracted have not been identified to any of the reportable segments, as the property, plant and equipment and services are used interchangeably between segments.

21.3 Patni's geographic segmentation is based on location of customers and comprises United States of America ( USA ), Europe, Japan, India and Others. Revenue in relation to geographic segments is categorized based on the location of the specific customer entity for which services are performed irrespective of the customer entity that is billed for the services and whether the services are delivered onsite or offshore. Categorization of customer related assets and liabilities in relation to geographic segments is based on the location of the specific customer entity which is billed for the services.

21.4 Substantial portion of Patni's long lived assets are located in India.

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****21 Segment Information (Continued)****21.5 Industry segments**

Particulars	Financial	Insurance	Manufacturing, Retail and Distribution	Communication, Media & Utilities	Product Engineering	Total
<b>December 31, 2008</b>						
Net revenues	\$ 91,673,353	\$ 177,274,553	\$ 207,659,685	\$ 129,030,389	\$ 113,246,123	\$ 718,884,103
Accounts receivables, net	14,749,219	25,412,923	33,085,786	22,658,292	15,907,523	\$ 111,813,743
Billings in excess of cost and estimated earnings on uncompleted contracts	(1,043,777)	(223,984)	(2,030,463)	(1,008,800)	(1,693,359)	\$ (6,000,383)
Advance from customers	(85,646)	(50,311)	(455,801)	(58,780)	(685,331)	\$ (1,335,869)
Unbilled revenue	3,110,598	2,162,504	8,127,184	12,711,210	4,551,871	\$ 30,663,367
<b>December 31, 2009</b>						
Net revenues	\$ 84,151,975	\$ 195,114,394	\$ 190,215,320	\$ 88,347,870	\$ 98,088,562	\$ 655,918,121
Accounts receivables, net	13,477,359	25,223,137	39,713,407	17,034,240	13,961,443	\$ 109,409,586
Billings in excess of cost and estimated earnings on uncompleted contracts	(263,957)	(301,076)	(2,467,272)	(999,385)	(1,686,130)	\$ (5,717,820)
Advance from customers	(327,657)	(55,428)	(463,250)	(246,895)	(80,452)	\$ (1,173,682)
Unbilled revenue	2,250,394	2,577,881	6,975,234	5,422,872	2,510,930	\$ 19,737,311
<b>December 31, 2010</b>						
Net revenues	\$ 81,464,893	\$ 212,353,847	\$ 212,436,521	\$ 78,320,496	\$ 117,122,882	\$ 701,698,639
Accounts receivables, net	12,236,355	34,160,499	38,090,764	16,097,032	21,032,695	\$ 121,617,345
Billings in excess of cost and estimated earnings on uncompleted contracts	(710,261)	(938,063)	(2,817,444)	(975,887)	(12,479,839)	\$ (17,921,494)
Advance from customers	(352,443)	(218,900)	(549,986)	(212,908)	(139,480)	\$ (1,473,717)
Unbilled revenue	2,889,762	5,723,942	10,008,544	5,808,900	6,299,795	\$ 30,730,943

Table of Contents

Patni Computer Systems Limited and subsidiaries

**Notes to the Consolidated Financial Statements****21 Segment Information (Continued)****21.7 Geographic segments**

<b>Particulars</b>	<b>USA</b>	<b>Europe</b>	<b>Japan</b>	<b>India</b>	<b>Others</b>	<b>Total</b>
<b>December 31, 2008</b>						
Net revenues	\$ 545,440,929	\$ 112,640,874	\$ 25,039,034	\$ 6,426,537	\$ 29,336,729	\$ <b>718,884,103</b>
Accounts receivables, net	84,479,242	18,910,013	3,289,297	1,962,387	3,172,804	\$ <b>111,813,743</b>
Billings in excess of cost and estimated earnings on uncompleted contracts	(3,122,673)	(186,880)	(1,528,806)	(55,839)	(1,106,185)	\$ <b>(6,000,383)</b>
Advance from customers	(687,186)	(71,776)	(507,529)	(8,242)	(61,136)	\$ <b>(1,335,869)</b>
Unbilled revenue	14,773,659	11,387,849	1,144,701	858,273	2,498,885	\$ <b>30,663,367</b>
<b>December 31, 2009</b>						
Net revenues	\$ 517,254,514	\$ 83,476,935	\$ 23,205,669	\$ 6,760,695	\$ 25,220,308	\$ <b>655,918,121</b>
Accounts receivables, net	89,143,096	14,287,050	1,898,097	1,566,291	2,515,052	\$ <b>109,409,586</b>
Billings in excess of cost and estimated earnings on uncompleted contracts	(2,861,588)	(826,062)	(1,588,626)	(52,070)	(389,474)	\$ <b>(5,717,820)</b>
Advance from customers	(756,813)	(321,255)	(47,010)	(12,213)	(36,391)	\$ <b>(1,173,682)</b>
Unbilled revenue	11,362,487	4,910,420	464,171	524,069	2,476,164	\$ <b>19,737,311</b>
<b>December 31, 2010</b>						
Net revenues	\$ 560,260,888	\$ 80,288,384	\$ 21,884,983	\$ 15,462,265	\$ 23,802,119	\$ <b>701,698,639</b>
Accounts receivables, net	94,155,394	16,680,445	1,674,872	4,946,091	4,160,543	\$ <b>121,617,345</b>
Billings in excess of cost and estimated earnings on uncompleted contracts	(4,066,674)	(11,003,308)	(1,888,724)	(155,222)	(807,566)	\$ <b>(17,921,494)</b>
Advance from customers	(938,148)	(347,963)	(138,503)	(6,500)	(42,603)	\$ <b>(1,473,717)</b>
Unbilled revenue	20,791,297	6,288,255	1,012,858	807,555	1,830,978	\$ <b>30,730,943</b>

Table of Contents**21 Segment Information (Continued)**

21.8 One customer accounted for 11%, 10% and 11% of the total revenues for the year ended December 31, 2008, 2009 and 2010, respectively. Net receivables from this customer as at December 31, 2009 and 2010, amounted to 15% and 14% of the total net receivables, respectively. The revenues from this customer were across all the industry segments of the Company. Another customer in the Insurance industry segment accounted for 10%, 12% and 11% of the total revenues for the years ended December 31, 2008, 2009 and 2010, respectively. Net receivables for this customer as at December 31, 2009 and 2010, amounted to 6% and 5% of the total net receivables, respectively.

**22 Earnings per share**

A reconciliation of the common shares used in the computation of basic and diluted earnings per share is set out below:

	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2010
<b>Common shares</b>			
Weighted average number of shares outstanding	135,590,677	128,254,916	130,101,442
Effect of dilutive equivalent shares-stock options outstanding	169,745	1,986,169	3,746,932
Weighted average number of equity shares and dilutive equivalent shares outstanding	135,760,422	130,241,085	133,848,374

Options to purchase 5,704,527, 980,600 and 468,000 equity shares were outstanding during the year ended December 31, 2008, 2009 and 2010, respectively, but were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the equity shares and to do so would have been anti-dilutive.

**23 Related party transactions**

23.1 Patni enters into various transactions with related parties, such as PCS Technology Ltd. ( PCSTL ), formerly known as PCS Industries Ltd., General Atlantic Mauritius Limited, PCS Cullinet, PCS Finance, Ravi and Ashok Enterprises, Ashoka Computers - all affiliates, directors of Patni and their relatives.

The Company has recorded an amount of \$457,436, \$359,523 and \$Nil as commission for Mr G.K.Patni and Mr A.K.Patni (included in selling, general and administrative expenses) for the year ended December 31, 2008, 2009 and 2010, respectively.

## Edgar Filing: Patni Computer Systems LTD - Form 20-F

The Company has recorded sales transactions with General Atlantic Mauritius Limited (GAML). Revenues of \$456,729 \$417,220 and \$403,252 were recorded, for the year ended December 31, 2008, 2009 and 2010, respectively. Accounts receivable due from GAML at December 31, 2009 and 2010 were \$67,842 and \$65,339, respectively.

F-60

---



Table of Contents

**23 Related party transactions (Continued)**

***Expenses***

23.2 Patni has taken certain residential properties under operating leases from certain affiliates and the Patni family. The rentals and other incidental charges incurred were \$82,036, \$75,061 and \$94,687 for the years ended December 31, 2008, 2009 and 2010, respectively. Amounts payable with respect to these obligations as at December 31, 2009 and 2010 were \$48,616 and \$63,731, respectively. Outstanding security deposits under the operating leases placed by Patni with affiliates and the Patni family at December 31, 2009 and 2010 were \$37,576 and \$39,106, respectively.

***Due from employees***

23.3 Patni grants personal loans to eligible employees, either for housing or personal purposes and advances to meet initial conveyance and living expenses while on travel. Personal loans include loans for vehicle purchase and other individual employee needs. Such loans and advances are repayable in equal installments over periods ranging from 1 to 60 months. Interest on these loans and advances is charged at 0-9%. Loans outstanding at December 31, 2009 and 2010 were \$108,383 and \$106,402, respectively.

23.4 Patni USA, Patni UK, Patni GmbH, Patni Telecom Solutions Inc. and its subsidiaries grant personal loans to employees as well as advances to meet initial conveyance and living expenses while on travel. Such loans and advances are repayable over a period of 6 months. Interest charged on these loans and advances ranged from 0% to 10%. Balance outstanding of such loans and advances at December 31, 2009 and 2010 were \$695,173 and \$980,857, respectively.

Employees execute promissory notes for the amount advanced along with a guarantor's agreement as collateral. In the case of long term housing loan, the original house deed is deposited with the Company as collateral, in addition to the guarantor's agreement.

**24 Line of Credit**

The Company has an overall line of credit of Rs.610,000,000 (\$13,112,639) and Rs.610,000,000 (\$13,646,532) as of December 31, 2009 and 2010, respectively, from its bankers for various requirements such as pre and post shipment loan, export bill discounting, overdrafts, working capital demand loans, financial and performance guarantees, etc. These facilities bear interest as negotiated with the bank from time to time. The facilities are secured by accounts receivables of the Company. These facilities can be withdrawn by the bankers on non compliance of terms and conditions mentioned in the facility letter. The Company has availed guarantee facility of \$1,557,896 and \$3,803,994 as of December 31, 2009 and 2010, respectively. In addition, Patni USA has a facility for issuance of letters of credit to the extent of \$ 500,000 as of December 31, 2009 and 2010. No amounts were utilized under this facility.



Table of Contents

**25 Commitments and Contingencies**

25.1 The Company is obligated under a number of contracts relating to capital expenditure. Estimated amounts remaining to be executed on such contracts (net of advances), aggregated \$55,578,368 and \$54,468,441 at December 31, 2009 and 2010, respectively.

25.2 Guarantees given by a bank on behalf of Patni amounted \$1,732,404 and \$3,949,304 as at December 31, 2009 and 2010, respectively and letter of credit issued by bank was \$365,112 and \$NIL as at December 31, 2009 and 2010, respectively.

25.3 In December 2008, the Company received a demand of approximately Rs 459 million for the Assessment Year (A.Y.) 2003-04 including an interest demand of Rs 259 million (\$10,260,961 including an interest demand of approximately \$5,786,223) and another demand in January 2009 of approximately Rs 1,133 million for the A. Y. 2005-06 including an interest demand of approximately Rs 423 million (\$25,345,659 including an interest demand of approximately \$9,452,256). These demands concern the same issue of disallowance of tax benefits under Section 10A of the Indian Income Tax Act, 1961( ACT ) as per earlier assessments. Subsequently, in June 2010, the Company has filed an further extension for stay of demand.

As per stay of demand order, till December 2010, the Company has paid sum of Rs. 66 million (\$1,476,510) for the Assessment Year 2003-04 and Rs.239 million (\$5,348,365) for the A. Y. 2005-06 in respect of the matters under appeal. Management considers these demands as not tenable against the Company, and therefore no provision for this tax contingency has been established.

The tax department had earlier rejected the Company's claim under section 10A of the Act and raised a demand of approximately Rs. 630 million (\$14,097,763 including an interest demand of approximately \$4,180,089) for A.Y. 2004-05 and Rs. 262 million (\$ 5,854,586 including an interest demand of approximately \$ 3,129,247) for A.Y. 2002-03 in December 2006 and December 2007, respectively. However on appeal, in 2008 the CIT (Appeal) had allowed the claim in favour of the Company under section 10A of the Act. The Indian Income tax department has appealed against the CIT (Appeal's) orders in respect of assessment year 2002-03 and 2004-05 in the Indian Income Tax Appellate Tribunal. Management considers these demands as not tenable against the Company, and therefore no provision for this tax contingency has been established.

In November 2010, the Company has received demand order for A.Y.2006-07 for a sum of Rs.1,262 million including an interest demand of Rs.442 million (\$28,228,802 including an interest demand approximately \$9,880,384) disallowing tax benefits under Section 10A of the Act as per the earlier assessments, as well as making a Transfer Pricing Adjustment for the Company's BPO operations. The Company has filed the appeal before the Indian Income Tax Appellate Tribunal and also filed an appeal for the stay of demand with the tax department. Management considers these disallowances as not tenable against the Company, and therefore no provision for this tax contingency has been established.

In December 2010, the Income tax department has issued draft assessment order for A.Y.2007-08 disallowing tax benefits under Section 10A of the Act as per the earlier assessments, as well as making a Transfer Pricing Adjustment for delayed recoveries from Associate's Enterprises. The Company has filed the objections against the draft order before the Dispute Resolution Panel ( DRP ) newly set up under the Income Tax Act, 1961. Management considers these



Table of Contents

disallowances as not tenable against the Company, and therefore no provision for this tax contingency has been established.

**25**                    **Commitments and Contingencies (*Continued*)**

Certain other income tax related legal proceedings are pending against the Company. Potential liabilities, if any, have been adequately provided for, and the Company does not currently estimate any incremental liability in respect of these proceedings. Additionally, the Company is also involved in lawsuits and claims which arise in ordinary course of business. There are no such matters pending that the Company expects to be material in relation to its business.

**26**                    **Subsequent events**

Pan-Asia iGATE Solutions and iGATE Global Solutions Limited entered into share and securities purchase agreements with the promoter group of Patni and General Atlantic Mauritius Limited to acquire 63% equity capital of the Company at a price of Rs.503.5 per share, subject to fulfillment of certain conditions.