

SYNTEL INC  
Form 10-Q  
November 06, 2013

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

**FORM 10-Q**

**(Mark One)**

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the quarterly period ended September 30, 2013**

**or**

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

**Commission file number 000-22903**

**Syntel, Inc.**

**(Exact name of registrant as specified in its charter)**

**Michigan**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**38-2312018**  
**(IRS Employer**  
**Identification No.)**

**525 E. Big Beaver Road, Suite 300, Troy, Michigan**  
**(Address of principal executive offices)**

**48083**  
**(Zip Code)**

**248-619-2800**

**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.    ☒ Yes    ☐ No

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

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

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Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

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

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

Common Stock, no par value: 41,756,518 shares outstanding as of October 31, 2013.

**SYNTEL, INC.**

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**PART I****Item 1. FINANCIAL STATEMENTS****SYNTEL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(UNAUDITED)****(IN THOUSANDS, EXCEPT SHARE DATA)**

	<b>THREE MONTHS ENDED</b>		<b>NINE MONTHS ENDED</b>	
	<b>SEPTEMBER 30,</b>		<b>SEPTEMBER 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net revenues	\$ 209,871	\$ 186,407	\$ 601,478	\$ 536,130
Cost of revenues	112,158	101,588	342,407	306,001
<b>Gross profit</b>	<b>97,713</b>	<b>84,819</b>	<b>259,071</b>	<b>230,129</b>
Selling, general and administrative expenses	23,060	29,036	68,036	74,913
<b>Income from operations</b>	<b>74,653</b>	<b>55,783</b>	<b>191,035</b>	<b>155,216</b>
Other income, net	1,564	9,964	9,626	20,708
Income before provision for income taxes	76,217	65,747	200,661	175,924
Income tax expense	16,800	14,265	47,308	40,308
<b>Net income</b>	<b>\$ 59,417</b>	<b>\$ 51,482</b>	<b>\$ 153,353</b>	<b>\$ 135,616</b>
Other comprehensive income(loss)				
Foreign currency translation adjustments	\$ (27,396)	\$ 35,877	\$ (75,331)	\$ 6,439
<b>Gains (losses) on derivatives:</b>				
Gains (losses) arising during period on net investment hedges	(3,194)	1,061	(7,912)	(1,234)
<b>Unrealized gains (losses) on securities:</b>				
Unrealized holding gains arising during period	2,456	758	3,086	916
Reclassification adjustment for gains included in net income	(199)	(213)	(1,029)	(159)
	2,257	545	2,057	757
<b>Defined benefit pension plans:</b>				
Net profit/(loss) arising during period	15	(9)	43	(13)
	7	8	23	24

Amortization of prior service cost included in net periodic pension cost

	22	(1)	66	11
Other comprehensive income (loss), before tax	(28,311)	37,482	(81,120)	5,973
Income tax benefits (expenses) related to other comprehensive income (loss)	(771)	(174)	(723)	(241)
<b>Other comprehensive income (loss), net of tax</b>	<b>(29,082)</b>	<b>37,308</b>	<b>(81,843)</b>	<b>5,732</b>
<b>Comprehensive income</b>	<b>\$ 30,335</b>	<b>\$ 88,790</b>	<b>\$ 71,510</b>	<b>\$ 141,348</b>
Dividend per share	\$ 0	\$ 0.06	\$ 0	\$ 0.18
<b>Earnings per share:</b>				
Basic	\$ 1.42	\$ 1.23	\$ 3.67	\$ 3.25
Diluted	\$ 1.42	\$ 1.23	\$ 3.66	\$ 3.25
<b>Weighted average common shares outstanding:</b>				
Basic	41,815	41,720	41,776	41,683
Diluted	41,888	41,802	41,859	41,780

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

**SYNTEL, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(UNAUDITED)**

**(IN THOUSANDS)**

	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 150,240	\$ 94,622
Short term investments	428,501	326,653
Accounts receivable, net of allowance for doubtful accounts of \$ 1,999 and \$ 2,168 at September 30, 2013 and December 31, 2012, respectively	97,339	86,004
Revenue earned in excess of billings	29,405	11,875
Deferred income taxes and other current assets	53,315	51,736
Total current assets	758,800	570,890
Property and equipment	189,910	204,151
Less accumulated depreciation and amortization	84,078	85,033
Property and equipment, net	105,832	119,118
Goodwill	906	906
Non current term deposits with banks	2,404	14
Deferred income taxes and other non current assets	37,760	34,908
<b>TOTAL ASSETS</b>	<b>\$ 905,702</b>	<b>\$ 725,836</b>

**LIABILITIES AND SHAREHOLDERS EQUITY**

<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 12,812	\$ 11,306
Accrued payroll and related costs	47,485	49,889
Income taxes payable	13,954	8,873
Accrued liabilities	29,087	23,644
Deferred revenue	2,685	4,694
Loans and borrowings	7,004	50,029
Total current liabilities	113,027	148,435
Other non current liabilities	11,925	11,731
Non current loans and borrowings	140,250	0
<b>TOTAL LIABILITIES</b>	<b>265,202</b>	<b>160,166</b>

**SHAREHOLDERS EQUITY**

Total shareholders equity	640,500	565,670
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<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 905,702</b>	<b>\$ 725,836</b>
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The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.



**SYNTEL, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

**(UNAUDITED)**

**(IN THOUSANDS)**

	<b>Common Stock</b>		<b>Restricted Stock</b>		<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Accumulated other Comprehensive Loss</b>	<b>Total Shareholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>				
<b>Balance, December 31, 2012</b>	<b>41,660</b>	<b>\$ 1</b>	<b>261</b>	<b>\$ 18,062</b>	<b>\$ 67,422</b>	<b>\$ 566,318</b>	<b>\$ (86,133)</b>	<b>\$ 565,670</b>
Net income						153,353		153,353
Other comprehensive income, net of tax							(81,843)	(81,843)
Restricted stock activity	92		(5)	3,320				3,320
<b>Balance, September 30, 2013</b>	<b>41,752</b>	<b>\$ 1</b>	<b>256</b>	<b>\$ 21,382</b>	<b>\$ 67,422</b>	<b>\$ 719,671</b>	<b>\$ (167,976)</b>	<b>\$ 640,500</b>

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

## SYNTEL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 153,353	\$ 135,616
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	10,713	11,080
Provision for doubtful debts / advances	204	1,088
Realized gains on sales of short term investments	(2,537)	(1,699)
Deferred income taxes	(3,202)	3,101
Compensation expense related to restricted stock	3,320	2,725
Uncertain tax positions and other tax credits	0	(236)
Gain on sale of property and equipment	0	(988)
Changes in assets and liabilities:		
Accounts receivable and revenue earned in excess of billings	(45,648)	(8,238)
Other current assets	(22,660)	(17,440)
Accrued payroll and other liabilities	22,754	3,746
Deferred revenue	(1,827)	(4,408)
Net cash provided by operating activities	114,470	124,347
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property and equipment expenditures	(13,852)	(22,858)
Proceeds from sale of property and equipment	46	1,455
Purchase of mutual funds	(251,312)	(204,345)
Purchase of term deposits with banks	(232,781)	(144,954)
Proceeds from sales of mutual funds	162,097	152,551
Maturities of term deposits with banks	173,215	84,905
Net cash used in investing activities	(162,587)	(133,246)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of loans and borrowings	(53,000)	0
Proceeds of loans and borrowings	150,000	0
Excess tax benefits on stock-based compensation plans	0	645
Dividends paid	0	(7,499)
Net cash provided by (used in) financing activities	97,000	(6,854)

Effect of foreign currency exchange rate changes on cash	6,735	(2,200)
Change in cash and cash equivalents	55,618	(17,953)
Cash and cash equivalents, beginning of period	\$ 94,622	\$ 104,628

Cash and cash equivalents, end of period	\$ 150,240	\$ 86,675
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Non cash investing and financing activities:

Cash dividends declared but unpaid	\$ 0	\$ 2,497
Cash paid for income taxes	44,255	35,274
Cash paid for interest	980	0

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

**Syntel, Inc. and Subsidiaries**

**Notes to the Unaudited Condensed Consolidated Financial Statements**

**1. BASIS OF PRESENTATION:**

The accompanying unaudited condensed consolidated financial statements of Syntel, Inc. (the Company or Syntel) have been prepared by management, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position of Syntel and its subsidiaries as of September 30, 2013, the results of their operations for the three and nine months ended September 30, 2013 and 2012, and cash flows for the nine months ended September 30, 2013 and 2012. The year-end condensed consolidated balance sheet as of December 31, 2012 was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2012.

Operating results for the nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

**2. PRINCIPLES OF CONSOLIDATION AND ORGANIZATION**

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

The wholly owned subsidiaries of Syntel, Inc. are:

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

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

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

Syntel Canada Inc., an Ontario limited liability company;

Syntel Deutschland GmbH, a German limited liability company;

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

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

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

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

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

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

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

Syntel (Australia) Pty. Ltd., an Australian limited liability company.  
The partially owned joint venture of Syntel Delaware is:

State Street Syntel Services (Mauritius) Limited, a Mauritius limited liability company ( SSSSML ).

The wholly owned subsidiary of SSSSML is:

State Street Syntel Services Private Limited, an Indian limited liability company ( SSSSPL ).  
The wholly owned subsidiaries of Syntel Mauritius are:

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

Syntel Global Private Limited, an Indian limited liability company.  
The wholly owned subsidiaries of SHML are:

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

Syntel Solutions (Mauritius) Limited, a Mauritius limited liability company ( SSML ).  
The wholly owned subsidiary of SSML is:

Syntel Solutions (India) Private Limited, an Indian limited liability company.  
The wholly owned subsidiaries of Syntel Europe are:

Intellisourcing, SARL, a French limited liability company.

Syntel Solutions BV, a Netherlands limited liability company.  
The wholly owned subsidiary of Syntel Singapore is:

Syntel Infotech, Inc., a Philippines corporation.

### **3. USE OF ESTIMATES**

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

#### **4. REVENUE RECOGNITION**

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

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

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

Revenues are reported net of sales incentives.

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

## 5. STOCK-BASED EMPLOYEE COMPENSATION PLANS

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

## 6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company enters into foreign exchange forward contracts to mitigate the risk of changes in foreign exchange rates and they are reported at fair value. The counterparty to these contracts is a bank. Forward contracts designated as hedges of net investments denominated in certain foreign currencies and changes in fair value are reported in the consolidated statements of comprehensive income as other comprehensive income. Foreign currency contracts designated as hedges of net investments in foreign operations were determined to be fully effective during all periods presented. As such, no amount of ineffectiveness has been included in net income. Other forward contracts, primarily related to customer transactions, are not designated as hedges and changes in fair value are reported in current earnings as other income, net.

During the three months ended September 30, 2013, the Company entered into foreign exchange forward contracts with a notional amount of \$13 million and with maturity dates of one to four months. During the three months ended September 30, 2013, contracts amounting to \$114 million expired. At September 30, 2013, foreign exchange forward contracts amounting to \$101 million were outstanding. The fair value of the foreign exchange forward contracts of \$4 million is reflected in other liabilities in the balance sheet of the Company as at September 30, 2013. During the three months ended September 30, 2013, forward contract loss of \$5.57 million, pertaining to direct client related contracts is included as negative other income and forward contract loss of \$3.19 million, pertaining to intercompany related contracts is recorded as negative other comprehensive income. During the nine months ended September 30, 2013, forward contract loss of \$12.97 million, pertaining to direct client related contracts is included as negative other income and forward contract loss of \$7.91 million, pertaining to intercompany related contracts is recorded as negative other comprehensive income.

Summary information about the forward contracts to sell U.S. Dollars and buy Indian Rupees as of September 30, 2013 and December 31, 2012 is as follows:

	September 30, 2013	December 31, 2012
<b>Derivatives designated as net investment hedges:</b>		
Notional amounts (in thousands)	\$ 40,500	\$
Weighted exchange rate	INR 62.40	n/a
Weighted average maturity	5 months	n/a
Fair values reported in:		



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Other assets (in thousands)	\$	0	\$
Other liabilities (in thousands)	\$	(1,608)	\$

The following table presents the net gains (losses) recorded in accumulated other comprehensive income (loss) relating to the foreign exchange contracts designated as net investment hedges for the periods ending September 30, 2013 and 2012.

**Gains and (losses) on derivatives**

<b>THREE MONTHS ENDED</b>		<b>NINE MONTHS ENDED</b>	
<b>SEPTEMBER 30,</b>		<b>SEPTEMBER 30,</b>	
<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>(In thousands)</b>		<b>(In thousands)</b>	

Gains (losses) recognized in other comprehensive income (loss)	\$ (3,194)	\$ 1,061	\$ (7,912)	\$ (1,234)
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Summary information about the derivatives not designated as hedges as of September 30, 2013 and December 31, 2012 is as follows:

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
<b>Derivatives not designated as hedges:</b>		
Notional amounts (in thousands)	\$ 60,500	\$
Weighted exchange	INR 62.40	n/a
Weighted average maturity	5 months	n/a
Fair values reported in:		
Other assets (in thousands)	\$ 0	\$
Other liabilities (in thousands)	\$ (2,407)	\$

The following table presents the net gains (losses) recorded in other income (expense), net relating to the foreign exchange contracts not designated as hedges for the periods ending September 30, 2013 and 2012.

**Gains (losses) recognized in other income:**

<b>THREE MONTHS ENDED</b>		<b>NINE MONTHS ENDED</b>	
<b>SEPTEMBER 30,</b>		<b>SEPTEMBER 30,</b>	
<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>(In thousands)</b>		<b>(In thousands)</b>	

Gains (losses) recognized in other income (expense), net	\$ (5,569)	\$ 1,489	\$ (12,968)	\$ (1,902)
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## 7. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME BY COMPONENT (NET OF TAX EXPENSE OR BENEFIT)

The change in balances of accumulated comprehensive income (loss) for three months ended September 30, 2013 is as follows:

	(In thousands)				
	Foreign Currency Translation Adjustments	Gains (Losses) on Net Investment- Hedge Derivatives	Unrealized Gains (Losses) on Securities	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income/(Loss)
Beginning balance	\$ (130,002)	\$ (8,630)	\$ 693	\$ (955)	\$ (138,894)
Other comprehensive income before reclassifications	(27,396)	(3,194)	1,628	15	(28,947)
Amounts reclassified from accumulated other comprehensive income			(136)	1	(135)
Net current-period other comprehensive income	\$ (27,396)	\$ (3,194)	\$ 1,492	\$ 16	\$ (29,082)
<b>Ending Balance</b>	<b>\$ (157,398)</b>	<b>\$ (11,824)</b>	<b>\$ 2,185</b>	<b>\$ (939)</b>	<b>\$ (167,976)</b>

Reclassifications out of accumulated other comprehensive income (loss) for three months ended September 30, 2013 is as follows:

	(In thousands)			
	Affected Line Item in the Statement Where Net Income Is Presented	Before Tax	Tax (Expense)	Net Benefit of Tax
Details about Accumulated Other Comprehensive Income (Loss) Components				
Unrealized gains and losses on available for sale securities	Other income	\$ (199)	\$ 63	\$ (136)
Amortization of prior service cost included in net periodic pension cost	Direct cost	\$ 7	\$ (6)	\$ 1

The change in balances of accumulated comprehensive income (loss) for three months ended September 30, 2012 is as follows:

	(In thousands)				
	Foreign Currency Translation Adjustments	Gains (Losses) on Net Investment- Hedge Derivatives	Unrealized Gains (Losses) on Securities	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income(Loss)
Beginning balance	\$ (99,595)	\$ (4,649)	\$ 314	\$ (80)	\$ (104,010)
Other comprehensive income before reclassifications	35,877	1,061	514	(7)	37,445
Amounts reclassified from accumulated other comprehensive income			(143)	6	(137)
Net current-period other comprehensive income	\$ 35,877	\$ 1,061	\$ 371	\$ (1)	\$ 37,308
<b>Ending Balance</b>	<b>\$ (63,718)</b>	<b>\$ (3,588)</b>	<b>\$ 685</b>	<b>\$ (81)</b>	<b>\$ (66,702)</b>

Reclassifications out of accumulated other comprehensive income (loss) for three months ended September 30, 2012 is as follows:

	(In thousands)			
	Affected Line Item in the Statement Where Net Income Is Presented	Before Tax Amount	Tax (Expense) Benefit of Tax	Net
Details about Accumulated Other Comprehensive Income Components				
Unrealized gains and losses on available for sale securities	Other income	\$ (213)	\$ 70	\$ (143)
Amortization of prior service cost included in net periodic pension cost	Direct cost	\$ 8	\$ (2)	\$ 6

The change in balances of accumulated comprehensive income (loss) for nine months ended September 30, 2013 is as follows:

	(In thousands)				
	Foreign Currency Translation Adjustments	Gains (Losses) on Net Investment- Hedge Derivatives	Unrealized Gains (Losses) on Securities	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income(Loss)
Beginning balance	\$ (82,067)	\$ (3,912)	\$ 846	\$ (1,000)	\$ (86,133)
Other comprehensive income before reclassifications	(75,331)	(7,912)	2,047	33	(81,163)
Amounts reclassified from accumulated other comprehensive income			(708)	28	(680)
Net current-period other comprehensive income	\$ (75,331)	\$ (7,912)	\$ 1,339	\$ 61	\$ (81,843)
<b>Ending Balance</b>	<b>\$ (157,398)</b>	<b>\$ (11,824)</b>	<b>\$ 2,185</b>	<b>\$ (939)</b>	<b>\$ (167,976)</b>

Reclassifications out of accumulated other comprehensive income (loss) for nine months ended September 30, 2013 is as follows:

	(In thousands)			
	Affected Line Item in the Statement Where Net Income Is Presented	Before Tax Amount	Tax (Expense) Benefit	Net of Tax
Details about Accumulated Other Comprehensive Income Components				
Unrealized gains and losses on available for sale securities	Other income	\$ (1,029)	\$ 321	\$ (708)
Amortization of prior service cost included in net periodic pension cost	Direct cost	\$ 23	\$ 5	\$ 28

The change in balances of accumulated comprehensive income (loss) for nine months ended September 30, 2012 is as follows:

	(In thousands)				
	Foreign Currency Translation Adjustments	Gains (Losses) on Net Investment- Hedge Derivatives	Unrealized Gains (Losses) on Securities	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income(Loss)
Beginning balance	\$ (70,157)	\$ (2,354)	\$ 164	\$ (87)	\$ (72,434)
Other comprehensive income before reclassifications	6,439	(1,234)	487	(13)	5,679
Amounts reclassified from accumulated other comprehensive income			34	19	53
Net current-period other comprehensive income	\$ 6,439	\$ (1,234)	\$ 521	\$ 6	\$ 5,732
<b>Ending Balance</b>	<b>\$ (63,718)</b>	<b>\$ (3,588)</b>	<b>\$ 685</b>	<b>\$ (81)</b>	<b>\$ (66,702)</b>

Reclassifications out of accumulated other comprehensive income (loss) for nine months ended September 30, 2012 is as follows:

	(In thousands)			
	Affected Line Item in the Statement Where Net Income Is Presented	Before Tax Amount	Tax (Expense) Benefit	Net of Tax
Details about Accumulated Other Comprehensive Income Components				
Unrealized gains and losses on available for sale securities	Other income	\$ (159)	\$ 193	\$ 34
Amortization of prior service cost included in net periodic pension cost	Direct cost	\$ 24	\$ (5)	\$ 19

**8. TAX ON OTHER COMPREHENSIVE INCOME (LOSS)**

Total (taxes) benefit on other comprehensive income (loss) for the three and nine months ended September 30, 2013 and 2012 is as follows:

	<b>Three Months Ended September 30, 2013      2012</b>		<b>Nine Months Ended September 30, 2013      2012</b>	
	(In thousands)		(In thousands)	
(Taxes) benefit on unrealized gains(losses) on securities	\$ (765)	\$ (174)	\$ (718)	\$ (236)
(Tax) on defined benefit pension plans	(6)	0	(5)	(5)
<b>Total (taxes)benefit on other comprehensive income(loss)</b>	<b>\$ (771)</b>	<b>\$ (174)</b>	<b>\$ (723)</b>	<b>\$ (241)</b>

**9. CASH AND CASH EQUIVALENTS**

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

As at September 30, 2013, the total cash and cash equivalent and short term investment balance was \$578.7 million. Of that amount, \$520.4 million was held by Indian subsidiaries consisting of \$88.8 million held in U.S. dollars and \$431.6 million held in Indian rupees. The Company believes that the amount of cash and cash equivalents outside the U.S. will not have a material impact on liquidity.

At September 30, 2013 and December 31, 2012, approximately \$23.8 million and \$29.2 million, respectively, were held in JPMorgan Chase Bank NA through a sweep account. At September 30, 2013, \$31.1 million in term deposits with an original maturity of three months or less were held with the Bank of India and Punjab National Bank. At year end, December 31, 2012, \$18.0 million in term deposits with an original maturity of three months or less were held with the Bank of India. The remaining amounts of cash and cash equivalents were held in bank and fixed deposits with various banking and financial institutions.

**10. LINE OF CREDIT AND TERM LOAN**

During the quarter ended December 31, 2012, Syntel utilized the full Line of Credit with JPMorgan Chase Bank NA of \$50 million and it was repaid in full on May 23rd, 2013.

On May 23, 2013, Syntel entered into a Credit Agreement with Bank of America, N.A. for \$150 million in credit facilities consisting of a three year term loan facility of \$60 million and a three year revolving credit facility of \$90 million. The Credit Agreement is guaranteed by two of the Company's domestic subsidiaries, SkillBay and Syntel Consulting (collectively, the Guarantors). In connection with the credit facilities, the Company and the Guarantors also entered into a related security and pledge agreement granting a security interest in the assets of the Company and the Guarantors, including, without limitation, a pledge of 65% of the equity interests in Syntel India.

The interest rates applicable to loans incurred under the Credit Agreement are (a) with respect to Revolving Loans, (i) the Eurodollar Rate plus 1.25% with respect to Eurodollar Loans and (ii) the Base Rate plus 0.25% with respect to Base Rate Loans, and (b) with respect to the Term Loan, (i) the Eurodollar Rate plus 1.50% with respect to Eurodollar Loans and (ii) the Base Rate plus 0.50% with respect to Base Rate Loans (each as defined in the Credit Agreement).

As at September 30, 2013, the interest rate was 1.51% for the three year revolving credit facility and was 1.76% for the three year term loan facility.



Principal payments on the term loan are due every quarter and during the three and nine months ended September 30, 2013, principal payments of \$1.5 million and \$3.0 million have been made, respectively. The related Credit Agreement requires compliance with certain financial ratios and covenants. As of September 30, 2013, the Company was in compliance with all debt covenants.

## 11. EARNINGS PER SHARE

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

The Company has issued stock options and restricted stock, which are considered to be potentially dilutive to its basic earnings per share. Diluted earnings per share is calculated using the treasury stock method for the dilutive effect of options and restricted stock granted pursuant to the stock option and incentive plan, by dividing the net income by the weighted average number of shares outstanding during the period adjusted for these potentially dilutive options, except when the results would be anti-dilutive. The potential tax benefit on exercise of stock options is considered as additional proceeds while computing dilutive earnings per share using the treasury stock method.

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

	Three Months Ended September 30, 2013		2012	
	Weighted Average Shares	Earnings per Share	Weighted Average Shares	Earnings per Share
	<i>(in thousands, except per share earnings)</i>			
Basic earnings per share	41,815	\$ 1.42	41,720	\$ 1.23
Potential dilutive effect of restricted stock options outstanding	73	0	82	0
<b>Diluted earnings per share</b>	<b>41,888</b>	<b>\$ 1.42</b>	<b>41,802</b>	<b>\$ 1.23</b>

	Nine Months Ended September 30, 2013		2012	
	Weighted Average Shares	Earnings per Share	Weighted Average Shares	Earnings per Share
	<i>(in thousands, except per share earnings)</i>			
Basic earnings per share	41,776	\$ 3.67	41,683	\$ 3.25
Potential dilutive effect of restricted stock options outstanding	83	(0.01)	97	0
<b>Diluted earnings per share</b>	<b>41,859</b>	<b>\$ 3.66</b>	<b>41,780</b>	<b>\$ 3.25</b>



**12. SEGMENT REPORTING**

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

Applications Outsourcing

Knowledge Process Outsourcing ( KPO )

e-Business and

TeamSourcing

These segments are the basis on which the Company reports its primary segment information to management. Management allocates all corporate expenses among the segments. No balance sheet/identifiable assets data is presented since the Company does not segregate its assets by segment. Financial data for each segment for the three and nine months ended September 30, 2013 and 2012 is as follows:

	<b>Three Months Ended September 30, 2013      2012</b>		<b>Nine Months Ended September 30, 2013      2012</b>	
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Revenues:</b>				
Applications Outsourcing	\$ 162,198	\$ 140,544	\$ 461,739	\$ 401,763
KPO	31,951	27,898	92,724	81,540
e-Business	13,542	13,986	38,089	41,634
TeamSourcing	2,180	3,979	8,926	11,193
	\$ 209,871	\$ 186,407	\$ 601,478	\$ 536,130
<b>Gross Profit:</b>				
Applications Outsourcing	70,088	59,100	180,647	157,973
KPO	20,912	17,565	59,239	50,764
e-Business	5,888	6,396	15,912	16,732
TeamSourcing	825	1,758	3,273	4,660
	97,713	84,819	259,071	230,129
Selling, general and administrative expenses	23,060	29,036	68,036	74,913
Income from operations	\$ 74,653	\$ 55,783	\$ 191,035	\$ 155,216

During the three and nine months ended September 30, 2013, American Express Corp. and State Street Bank each contributed revenues in excess of 10% of total consolidated revenues. Revenue from American Express Corp. and State Street Bank was \$49.9 million and \$32.0 million, respectively, during the three months ended September 30,

2013, contributing approximately 23.8% and 15.2%, respectively of total consolidated revenues. The revenue from American Express Corp. was generated, primarily in the Application Outsourcing segment and some in KPO segment. Approximately 76% of the revenue from State Street Bank was generated in the KPO segment and 24% was generated in the Application Outsourcing segment. The corresponding revenue for the three months ended September 30, 2012 from American Express Corp. and State Street Bank was \$51.0 million and \$30.8 million, respectively, contributing approximately 27.4% and 16.5%, respectively, of total consolidated revenues. During the nine months ended September 30, 2013, revenue from American Express Corp. and State Street Bank was \$154.5 million and \$95.4 million, respectively, contributing approximately 25.7% and 15.9%, respectively, of total consolidated revenues. The revenue from American Express Corp. was generated, primarily in the Application Outsourcing segment and some in KPO segment.

Approximately 76% of the revenue from State Street Bank was generated in the KPO segment and 24% in the Application Outsourcing segment. The corresponding revenues for the nine months ended September 30, 2012 from American Express Corp. and State Street Bank was \$144.6 million and \$90.0 million, respectively, contributing approximately 27.0% and 16.8%, respectively, of total consolidated revenues. The revenue from American Express Corp. was generated, primarily in the Application Outsourcing segment and some in KPO segment. Approximately 74% of the revenue from State Street Bank was generated in the KPO segment and 26% in the Application Outsourcing segment. At September 30, 2013 and December 31, 2012, accounts receivable from American Express Corp. were \$17.4 million and \$17.1 million, respectively. Accounts receivable from State Street Bank were \$10.2 million and \$9.8 million, respectively, as at September 30, 2013 and December 31, 2012.

### 13. GEOGRAPHIC INFORMATION

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

	Three Months Ended September 30, 2013      2012 (in thousands)		Nine Months Ended September 30, 2013      2012 (in thousands)	
<b>Net Revenues (1)</b>				
North America (2)	\$ 192,751	\$ 171,813	\$ 552,877	\$ 495,772
India	314	561	954	1,241
Europe (3)	15,776	12,496	43,878	34,676
Rest of the World	1,030	1,537	3,769	4,441
<b>Total revenue</b>	<b>\$ 209,871</b>	<b>\$ 186,407</b>	<b>\$ 601,478</b>	<b>\$ 536,130</b>

	As on September, 30 2013 (in thousands)	As on December, 31 2012
<b>Long-Lived Assets (4)</b>		
North America (2)	\$ 1,723	\$ 1,841
India	104,468	118,095
Europe (3)	82	88
Rest of the world	465	0
<b>Total</b>	<b>\$ 106,738</b>	<b>\$ 120,024</b>

Notes for the Geographic Information Disclosure:

1. Net revenues are attributed to regions based upon customer location.
2. Primarily relates to operations in the United States.
3. Primarily relates to operations in the United Kingdom.

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

**14. INCOME TAXES**

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Statutory provision	35.0%	35.0%	35.0%	35.0%
State taxes, net of federal benefit	0.5%	0.1%	0.2%	0.3%
Foreign effective tax rates different from US statutory rate	(12.1)%	(13.1)%	(11.1)%	(12.3)%
Tax reserve	(1.4)%	(0.3)%	(0.5)%	(0.1)%
<b>Effective Income Tax Rate</b>	<b>22.0%</b>	<b>21.7%</b>	<b>23.6%</b>	<b>22.9%</b>

The tax rate for the three and nine months ended September 30, 2013, was affected by the effective tax rate impact of change in the offshore/onshore profit mix of the Company and by certain Company facilities going out of tax holiday effective April 1, 2013.

The tax rate for the three months ended September 30, 2013, included a tax reversal of \$1.09 million which related to the true up of tax provisions, pursuant to finalization of the tax computation for filing tax returns of Syntel Limited, which had arisen on account of finalization of the actual numbers of expenses apportionment, wage reconciliations, meal disallowances etc., as against the amounts estimated earlier for the tax provisions.

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

Syntel, Inc. and its subsidiaries file income tax returns in various tax jurisdictions. The Company is no longer subject to U.S. Federal tax examinations by tax authorities for years before 2010 and for State tax examinations for years before 2009.

Syntel India, the Company's India subsidiary, has disputed tax matters for the financial years 1996-97 to 2008-09 pending at various levels of the Indian tax authorities. Financial year 2009-10 and onwards are open for regular tax scrutiny by the Indian tax authorities. However, the tax authorities in India are authorized to reopen the already concluded tax assessments and may re-open the case of Syntel India for financial years 2005-06 and onwards.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as part of income tax expense. During the three months ended September 30, 2013, the Company recognized interest of approximately \$0.06 million. The Company had accrued approximately \$1.32 million and \$1.40 million for interest and penalties as of September 30, 2013 and December 31, 2012, respectively.

The liability for unrecognized tax benefits was \$27.60 million and \$24.94



million as of September 30, 2013 and December 31, 2012, respectively. The Company has paid income taxes of \$23.79 million and \$20.58 million against the liabilities for unrecognized tax benefits of \$27.60 million and \$24.94 million, as of September 30, 2013 and December 31, 2012, respectively. The Company has paid the taxes in order to reduce the possible interest and penalties related to these unrecognized tax benefits.

The Company's amount of unrecognized tax benefits for the tax disputes of \$1.48 million and potential tax disputes of \$2.85 million could change in the next twelve months as the court cases and global tax audits progress. At this time, due to the uncertain nature of this process, it is not reasonably possible to estimate an overall range of possible change.

Syntel's software development centers/units are located in Mumbai, Chennai, Pune and Gurgaon, India. Software development centers/units enjoy favourable tax provisions due to their registration in Special Economic Zones (SEZ), as Export Oriented Units (EOU) and as units located in Software Technologies Parks of India (STPI).

Units registered with STPI, EOUs and certain units located in SEZ were exempt from payment of corporate income taxes on the profits generated by these units for ten years of operations or until March 31, 2011, whichever was earlier. Certain units located in SEZ are eligible for 100% exemption from payment of corporate taxes for the first five years of operation, 50% exemption for the next two years and for a further 50% exemption for another three years, subject to fulfilment of certain criteria. New units in SEZ that were operational after April 1, 2005 are eligible for 100% exemption from payment of corporate taxes for the first five years of operation, 50% exemption for the next five years and a further 50% exemption for another five years, subject to fulfilment of certain criteria.

Six Syntel SEZ units located at Mumbai have already ceased to enjoy the above-mentioned tax exemption. One SEZ unit located at Mumbai completed the tax holiday period on March 31, 2012. Further, three more SEZ units located at Mumbai completed their first five years of 100% exemption from payment of corporate taxes effective April 1, 2008 and only 50% of the profits of the stated units were eligible for tax exemption, which expired on March 31, 2013. Also, the EOU located at Chennai ceased to enjoy the above-mentioned tax exemption effective April 1, 2007. During the year ended December 31, 2008, Syntel started a Software Development unit in the Pune SEZ and during 2009 the Company started one more Software Development unit in the Pune SEZ. During the year ended December 31, 2010, the Company started a Software Development unit in the Syntel Chennai SEZ. Further, the Company has four STPI units which ceased to enjoy tax exemption effective April 1, 2011 due to expiration of the statutory period for tax exemption. During the three months ended September 30, 2011, the Company started a Software Development SEZ unit in Airoli, Navi Mumbai. Further, one SEZ unit located at Chennai completed its first five years of 100% exemption on March 31, 2012. During the quarter ended June 30, 2013, the Company started operation in a new SEZ unit in the Syntel Pune SEZ.

Syntel KPO STPI units located in Mumbai and Pune were exempt from payment of corporate income taxes on the profits generated by the units until March 31, 2011. During the year ended December 31, 2008, Syntel started a KPO unit in the Pune SEZ. During the three months ended June 30, 2011, Syntel started a KPO SEZ unit in Airoli, Navi Mumbai. The Syntel KPO entity has started operation in the new SEZ unit in the Syntel Pune SEZ.

Syntel's SEZ in Pune, set up under the SEZ Act 2005, commenced operations in 2008. The SEZ for Chennai commenced operations in 2010. Income from operation of the SEZ, as a developer, is exempt from payment of corporate income taxes for ten out of 15 years from the date of SEZ notification.

Provision for Indian Income Tax is made only in respect of business profits generated from these software development units to the extent they are not covered by the above exemptions and also for income from treasury operations and other income.



Syntel India has not provided for disputed Indian income tax liabilities amounting to \$1.50 million for the financial years 1996-97, 1997-98 and 2001-02, which is after recognizing certain tax liabilities aggregating \$0.77 million.

Syntel India received orders for appeals filed with the Commissioner of Income Tax Appeals ( CIT (A) ) against the demands raised by the Income Tax Officer in respect of certain matters relating to the financial years 1996-97, 1997-98, and 2000-01. The contention of Syntel India was partially upheld by the CIT (A). Syntel India further appealed with the Income Tax Appellate Tribunal ( ITAT ) for the amounts not allowed by the CIT (A). Syntel India received favourable orders from the ITAT. The Income Tax Department filed further appeals before the Bombay High Court. The Bombay High Court dismissed the Income Tax Department appeals and upheld the ITAT orders on December 15, 2009. The Income Tax Department filed a review petition before the Bombay High Court that was rejected due to filing defects. The Income Tax Department may rectify the defects and re-submit the review petition.

Syntel India has also not provided for disputed Indian income tax liabilities aggregating \$4.45 million for the financial years 2002-03 to 2004-05, which is after recognizing tax on certain tax liabilities aggregating \$0.71 million provided for uncertain income tax positions, against which Syntel India filed appeals with the CIT(A). Syntel India received the order for appeal filed with the CIT (A) relating to financial year 2002-03 and financial year 2003-04, wherein the contention of Syntel India was partially upheld. Syntel India has further appealed to the ITAT for the amounts not allowed by the CIT (A). The Income Tax Department has also filed a further appeal against the relief granted to Syntel India by the CIT (A). The appeals by Syntel India and the Income Tax Department have been scheduled for hearing before the ITAT in the near future. Syntel India has obtained opinions from independent legal counsels that support Syntel India's stand in this matter.

For the financial year 2004-05, the appeal of Syntel India was fully allowed by the CIT (A). The Income Tax Department filed a further appeal with the ITAT for the amounts allowed by the CIT (A) except with regard to one item. The Income Tax department's appeal was rejected by the ITAT. The Income Tax Department filed a further appeal before the Bombay High Court for the amounts allowed by the ITAT, except an item on which the CIT(A) granted relief to Syntel India and the Income Tax department did not appeal. Accordingly, Syntel India reversed a tax provision of \$0.33 million during the year ended December 31, 2010 with regard to that one item. The Bombay High Court dismissed the Income Tax Department appeal. The Income Tax Department filed a Special Leave petition with the Supreme Court of India on January 24, 2013, challenging the order passed by the Bombay High Court. The petition will come up for admission in the near future. For the financial year 2005-06, the Income Tax Department decided against Syntel India with respect to a particular tax position and Syntel India filed an appeal with the CIT (A). During the year ended December 31, 2010, Syntel India's appeal for the financial year was fully allowed by the CIT (A). The Income Tax Department filed a further appeal with the ITAT for the amounts allowed by the CIT (A). The Income Tax Department appeal is fixed for hearing before the ITAT on December 4, 2013. For the financial year 2006-07, the Income Tax Department decided against Syntel India with respect to a particular tax position and Syntel India filed an appeal with the CIT(A). During the three months ended September 30, 2011, the Company received an order for appeal filed with the CIT (A) that partially upheld Syntel India's contentions. Syntel India filed a further appeal with the ITAT for the amounts not allowed by the CIT (A). The Income Tax Department filed a further appeal for the amounts allowed by the CIT (A). The Syntel India and Income Tax Department appeals are fixed for hearing before ITAT in the near future. For the financial year 2007-08, the Indian Income Tax Department decided against Syntel India with respect to a particular tax position and Syntel India filed an appeal with the CIT (A). During the three months ended September 30, 2012, the Company received an order for appeal filed with the CIT (A) that upheld Syntel India's contentions. The Income Tax Department filed a further appeal for the amounts

allowed by the CIT (A). The Appeal is scheduled for hearing on January 15, 2014. For the Financial Year 2008-09, the Income Tax Department has decided against Syntel India with respect to a particular tax position and the Company has filed an appeal with the CIT (A). On August 14, 2013 the Company received an order for appeal filed with the CIT (A) that upheld Syntel India's contentions. The Income Tax Department may file a further appeal for the amounts allowed by the CIT (A).

For the financial year 2006-07, the Income Tax Department decided against the Syntel KPO entity with respect to a particular tax position and the Syntel KPO entity filed an appeal with the CIT (A). During the year ended December 31, 2011, the Syntel KPO entity received an order for appeal filed with CIT(A) wherein, the contention of Syntel India was upheld. The Income Tax department filed a further appeal for the amounts allowed by the CIT (A). The Income Tax Department appeal is fixed for hearing before ITAT on April 19, 2014. For the financial years 2007-08 and 2008-09, the Income Tax Department decided against the Syntel KPO entity with respect to a particular tax position and the Syntel KPO entity filed an appeal with the CIT(A). The Syntel KPO entity's appeal for the financial year was not allowed by the CIT (A). The Syntel KPO entity has filed a further appeal with the ITAT for the amounts not allowed by the CIT (A).

For the financial year 2007-08, the Income Tax Department also decided against SIPL with respect to a particular tax position and SIPL filed an appeal with the CIT (A). During the three months ended September 30, 2012, SIPL received an order for appeal filed with CIT (A) wherein the contention of SIPL was upheld. Also, High Court orders are in favor of the tax position taken by SIPL. Based on the CIT (A) and the recent High Court orders, SIPL reviewed an Uncertain Tax Position (UTP) of \$0.24 million and reversed the aforesaid tax provision in September 2012. The Income Tax Department filed a further appeal to the ITAT for the amounts allowed by the CIT (A).

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

Syntel Europe has accumulated losses, to be carried forward and set off against future taxable income of \$2.02 million and \$1.96 million as of September 30, 2013 and December 31, 2012, respectively. Accordingly, Syntel Europe has deferred tax assets of \$0.44 million and \$0.43 million for the accumulated losses as of September 30, 2013 and December 31, 2012, respectively. In view of continued losses from operations, Syntel Europe has created a valuation allowance of \$0.44 million and \$0.43 million as of September 30, 2013 and December 31, 2012, respectively.

### **Branch Profit Tax**

Syntel India is subject to a 15% USA Branch Profit Tax (BPT) related to its effectively connected income in the USA, to the extent its U.S. taxable adjusted net income during the taxable year is not invested in the USA. The Company expects that U.S. profits earned on or after January 1, 2008 will be permanently invested in the U.S. Accordingly, effective January 1, 2008, a provision for Branch profit taxes is not required. The accumulated deferred tax liability of \$1.73 million as of December 31, 2007 will continue to be carried forward. Estimated additional Branch Profit taxes which would be due, if US profits were not to be permanently invested, were approximately \$6.21 million as of September 30, 2013.

### **Undistributed Earnings of Foreign Subsidiaries**

The Company intends to use the remaining accumulated and future earnings of foreign subsidiaries to expand operations outside the United States and accordingly, undistributed earnings of foreign subsidiaries are considered to be indefinitely reinvested outside the United States and no provision for U.S.



Federal and State income tax or applicable dividend distribution tax has been provided thereon. If the Company determines to repatriate all undistributed repatriable earnings of foreign subsidiaries as of September 30, 2013, the Company would have accrued taxes of approximately \$191.4 million.

### **Service Tax Audit**

During the three months ended September 30, 2010, a service tax audit was conducted for the Adyar facility in Chennai by the office of Accountant General (Commercial Receipt Audit). The scope of the audit was to review transactions covered under the Central Excise and Customs Act. The Development Commissioner (DC) has issued a letter stating the audit objections raised by the officer of the audit team. Most of the observations are pertaining to the service tax and are for an amount of \$3.85 million. Syntel India filed a reply to said notice and provided further information.

Further to Syntel India's reply and information filed earlier, Syntel India received a letter dated July 13, 2011 from the DC, indicating that the audit objections amounting to \$3.0 million, out of the total amount of \$3.85 million, have been closed. Syntel is pursuing closure of the balance of the audit objections of approximately \$0.85 million but has not yet received any communication back from the DC office.

Syntel India has obtained the views of a tax consultant in this matter and the consultant has advised that the matter is time barred. Even if not time barred, the consultant has also provided advice that Syntel India will be in a position to defend the objections raised and therefore no provision has been made in the Company's books.

The Syntel KPO entity regularly files quarterly refund applications and claims refunds of taxes on input services which remain unutilized against a nil service tax on export of services. During the three months ended September 30, 2012, the Syntel KPO entity received orders for the rejection of a service tax refund for the period April - September 2011 of \$0.46 million. Per the rejection order, there is no nexus of input services with the export of services justifying the claim of refund of service tax. The Syntel KPO entity has filed appeals before the Commissioner of Appeal against the aforesaid order. In view of the aforesaid order, the disputed and potential disputed service tax amount is \$5.52 million. During the quarter ended March 31, 2013, the Syntel KPO entity received a service tax refund for the period October - December 2011 and January - March 2012 of \$0.16 million and \$0.13 million, respectively.

The Company has obtained a tax consultant's advice on the aforesaid orders. The consultant is of the view that the aforesaid orders are contrary to the wording of the service tax notifications and provisions. The Company therefore believes that its claims of service tax refunds should be upheld at the appellate stage and the refunds should be accordingly granted. Based on the consultant's tax advice, the Company is in a strong position to defend the rejection of the refunds. Accordingly, no provision has been made in the Company's books.

SIPL regularly files service tax returns and filed a refund application claiming a tax refund of unutilized input service tax on account of export of services. The Company received a show cause notice on October 23, 2012 for a service tax demand of approximately \$2.04 million. The Company filed submissions with the service tax department to oppose the aforementioned show cause notice. However, the service tax department passed an order dated February 11, 2013 confirming the said demand. The total demand, including penalty amounts, was raised to \$3.95 million. In addition to this amount, annual interest at 18%, calculated on a daily basis on the outstanding demand, is payable. SIPL filed an appeal against the said order before the Customs, Excise and Service Tax Appellate Tribunal (CESTAT) and also an application for stay of demand. The CESTAT allowed SIPL's appeal, set aside the demand and directed the Commissioner to make a fresh examination. In view of the above, SIPL has defended the demand raised by the Commissioner and is in a strong position to defend the same in a fresh examination, if any. The Company's tax



consultant is of the view that the aforementioned demand is contrary to the wording of the service tax notifications and provisions. Accordingly, no provision has been made in the Company's books.

### **Finance Bill 2013**

The Finance Bill 2013 received the assent of the President of India on 10th May 2013 and has been enacted as the Finance Act 2013. There are various provisions in the Finance Act, including a tax on the buy-back of shares by private companies. There is an increase in the surcharge rate, from 5% to 10%, for a corporation earning more than Indian Rupees 10Mn. In effect, the corporation tax rate would be 33.99%, an increase from the existing tax rate of 32.45%. The dividend distribution tax increased from 16.22% to 16.99% and there is an increase in the Minimum Alternative Tax (MAT) rate from 20.01% to 20.96%.

The impact of the tax rate changes for the quarters ended June 30, 2013 and September 30, 2013 has been considered. Accordingly, there is an additional one time deferred tax credit of \$0.4 million on the financial statements of the Company and an additional charge of \$0.5 million and \$0.6 million for the quarters ended June 30, 2013 and September 30, 2013, respectively.

The Government of India published notice of a Cost Inflation Index of 939 for the financial year 2013-14, to be used in the calculation of long term capital gains. In general, Cost Inflation Indexes ( CII ) are being published with an increase in the range of 4%-11%. Before the aforesaid notification, Syntel had factored the CCI of 886 for Financial year 2013-14, which was based on a 4% increase in inflation index from the published Index of 852 for the Financial year 2012-13. Accordingly, the higher CII has resulted in recognition of additional deferred tax assets and credit to the tax expenses of \$0.55 million as a discrete tax item for the quarter ended June 30, 2013.

### **Local Taxes**

For the nine months and three month periods ended September 30, 2013, the Company has recorded an additional local tax liability of approximately \$0.24 million and \$0.03 million, respectively (exclusive of interest and/or penalties) relating to employer withholding taxes and employer payroll expense tax.

As of December 31, 2012, the Company had recorded a local tax liability of approximately \$4.3 million, equal to \$2.7 million net of tax, relating to local taxes including employer withholding taxes, employer payroll expense taxes, business license registrations, and corporate income taxes.

### **Minimum Alternate Tax (MAT)**

Minimum Alternate Tax ( MAT ) is payable on Book Income, including the income for which deduction is claimed under section 10A and section 10AA of the Indian Income Tax Act. The excess tax paid under MAT provisions, over and above the normal tax liability is MAT Credit . MAT Credit can be carried forward and set-off against future tax liabilities computed under normal tax provisions in excess of tax payable under MAT. The MAT Credit can be carried forward for set-off up to a period of 10 years from the end of the financial year in which MAT Credit arises.

Accordingly, the Company's Indian subsidiaries have calculated the tax liability for current domestic taxes after considering MAT tax liability. Management estimates that the Company's Indian subsidiaries would utilize the MAT credit within the prescribed limit of 10 years. Accordingly, MAT is recognized as deferred tax assets. The MAT Credit as of September 30, 2013 of \$17.69 million shall be utilized before March 31 of the following financial years and shall expire as follows:

Year of Expiry Of MAT Credit



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	Amount in USD (in millions)
2017-18	0.21
2018-19	0.29
2019-20	2.44
2020-21	5.22
2021-22	0.84
2022-23	5.14
2023-24	3.55
	17.69

## **15. LEGAL EXPENSES, EXPOSURES AND CONTINGENCIES**

The Company is party to various legal actions arising in the ordinary course of business, including litigation and governmental and regulatory controls. The Company has not accrued any liability for legal contingencies as no legal contingency has been deemed to be probable of occurring. The Company's estimates regarding legal contingencies are based on information known about the matters and its experience in contesting, litigating and settling similar matters. It is the opinion of management with respect to pending or threatened litigation matters that unfavorable outcomes are neither probable nor remote and that estimates of possible loss are not able to be made. Although actual amounts could differ from management's estimates, none of the actions are believed by management to involve future amounts that would be material to the Company's financial position or results of operations.

The Company estimates the costs associated with known legal exposures and their related legal expenses and accrues reserves for either the probable liability, if that amount can be reasonably estimated, or otherwise the lower end of an estimated range of potential liability. There was no accrual related to litigation at September 30, 2013 and December 31, 2012.

The Company is in litigation with one former customer for which certain IT services had been performed. There is a dispute regarding the IT services performed. The contract with the former customer contains a limitation of liability clause that limits the Company's liability to the amount of the holdback the former customer has retained, amounting to approximately \$0.3 million. The Company believes it has meritorious defences against any claim of liability and will vigorously defend any such claim if raised. The Company does not believe this matter will have a material impact on the consolidated financial statements.

## 16. STOCK BASED COMPENSATION

### Share Based Compensation:

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

The Company accounts for share-based compensation based on the estimated fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Statement of Comprehensive Income. Share-based compensation expense recognized as above for the three months ended September 30, 2013 and 2012 was \$1.15 million and \$0.94 million, respectively, including a charge for restricted stock. For the nine months ended September 30, 2013 and 2012, the share-based compensation expense recognized was \$3.32 million and \$2.72 million, respectively, including a charge for restricted stock.

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

### Restricted Stock:

On different dates during the year ended December 31, 2006, the Company issued 16,536 shares of incentive restricted stock to its non-employee directors. Generally, the shares to non-employee directors are granted for their future services starting from the date of the annual meeting to the date of the following annual meeting.

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

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

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

On different dates during the year ended December 31, 2012, 2011 and for the nine months ended September 30, 2013, the Company issued restricted stock awards of 108,828, 91,364 and 93,528, respectively, to its non-employee directors and some employees as well as to some employees of its subsidiaries. The restricted stock awards were granted to employees for their future services as a retention tool at a zero exercise price and vest in shares with regards to 25% of the awards issued on or after the first, second, third and fourth anniversary of the grant dates.

For the restricted stock issued during the years ended December 31, 2009, 2008, 2007 and 2006, the dividend is accrued and paid subject to the same restriction as the restriction on transferability. For the restricted stock awards issued during the years ended December 31, 2011, 2012 and for the nine months ended September 30, 2013 no dividend accrues on the restricted stock awards.

The impact on the Company's results of operations of recording stock-based compensation (including impact of restricted stock) for the three and nine months ended September 30, 2013 and 2012 was as follows:

	<b>Three Months Ended September 30, 2013      2012 (in thousands)</b>		<b>Nine Months Ended September 30, 2013      2012 (in thousands)</b>	
Cost of revenues	\$ 363	\$ 311	\$ 982	\$ 859
Selling, general and administrative expenses	790	633	2,338	1,866
	\$ 1,153	\$ 944	\$ 3,320	\$ 2,725

### ***Valuation Assumptions***

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

	<b>Nine Months Ended September 30, 2013      2012</b>	
<b>Assumptions:</b>		
Risk free interest rate	1.38%	0.72%
Expected life	5.00	5.00
Expected volatility	51.07%	55.93%

Expected dividend yield	0.0%	0.38%
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The Company's computation of expected volatility for the nine months ended September 30, 2013 and 2012 is based on historical volatility from exercised options on the Company's stock. The Company's computation of expected life was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. The interest rate for

periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield is estimated based on the dividend yield at the time of grant, adjusted for expected dividend increases of historical pay out policy.

#### **17. VACATION PAY**

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

The gross charge for unutilized earned leave was \$1.4 million and \$1.5 million for the three months ended September 30, 2013 and 2012, respectively, and \$6.2 million and \$5.7 million for the nine months ended September 30, 2013 and 2012, respectively.

The amounts accrued for unutilized earned leave are \$20.1 million and \$17.9 million as of September 30, 2013 and December 31, 2012, respectively, and are included within Accrued payroll and related costs.

#### **18. EMPLOYEE BENEFIT PLANS**

The Company maintains a 401(k) retirement plan that covers all regular employees on Syntel's U.S. payroll. Eligible employees may contribute the lesser of 60% of their compensation or \$17,500, subject to certain limitations, to the retirement plan. The Company may make contributions to the plan at the discretion of the Board of Directors; however, through December 31, 2012, no Company contributions have been made.

Eligible employees on Syntel's Indian payroll receive benefits under the Provident Fund ( PF ), which is a defined contribution plan. Both the employee and the Company make monthly contributions equal to a specified percentage of the covered employee's salary. The Company has no further obligations under the plan beyond its monthly contributions. The contributions made to the fund are administered and managed by the Government of India. The Company's monthly contributions are charged to income in the period they are incurred. Provident Fund Contribution expense recognized by Indian entities for the three months ended September 30, 2013 and 2012 was \$0.8 million and \$1.0 million, respectively, and for nine months ended September 30, 2013 and 2012 was \$2.5 million and \$2.8 million, respectively.

In accordance with the Payment of Gratuity Act, 1972 of India, the Indian subsidiary provides for gratuity, a defined retirement benefit plan (the Gratuity Plan ) covering eligible employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment, based on the respective employee's salary and the tenure of employment. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation and are charged to income in the period determined. The Gratuity Plan is a non-funded plan. The amounts accrued under this plan are \$8.7 million and \$8.2 million as of September 30, 2013 and December 31, 2012, respectively, and are included within current and other non-current liabilities, as applicable. Expense recognized by Indian entities under the Gratuity Plan for the nine months ended September 30, 2013 and 2012 was \$2.2 million and \$1.8 million, respectively.

#### **19. CONSOLIDATION OF A VARIABLE INTEREST ENTITY**

Syntel Delaware is a 100% subsidiary of Syntel, Inc. and a 49% shareholder of the joint venture ( JV ) entity SSSSML, the other shareholder being an affiliate of State Street Bank. Syntel Delaware has a variable interest in SSSSML as it

is entitled to all the profits and solely responsible for all losses incurred by SSSSML even though it holds only 49% in the JV entity. Accordingly, Syntel Delaware consolidates the JV entity SSSSML.

The Company's KPO services to State Street Bank and one other client are provided through the above joint venture between the Company and an affiliate of State Street Bank. Sales of KPO services only to these two clients represented approximately 13.6% and 14.1% of the Company's total revenues for three months ended September 30, 2013 and 2012, respectively and 14.2% and 14.3% for the nine months ended September 30, 2013 and 2012, respectively.

## 20. FAIR VALUE MEASUREMENTS

The Company follows the accounting standard for fair value measurements and fair value option for financial assets and liabilities, which primarily relate to investments, forward contracts and nonfinancial assets and liabilities.

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

The fair value hierarchy consists of the following three levels:

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

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

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

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of September 30, 2013:

	(In Millions)			
	Level 1	Level 2	Level 3	Total
Short Term Investments-Available for Sale Securities	\$ 140.1	\$	\$	\$ 140.1
Term Deposits		290.8		290.8
Fair Value of Foreign Exchange Forward Contracts		(4.0)		(4.0)
Total Assets Measured at Fair Value	\$ 140.1	\$ 286.8	\$	\$ 426.9

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of December 31, 2012:



	(In Millions)			
	Level 1	Level 2	Level 3	Total
Short Term Investments-Available for Sale Securities	\$ 60.6	\$	\$	\$ 60.6
Term Deposits		266.1		266.1
Total Assets Measured at Fair Value	\$ 60.6	\$ 266.1	\$	\$ 326.7

The value of each foreign exchange forward contract, at the end of each reporting period is calculated by using the forward contract rates published by Foreign Exchange Dealers Association of India (F.E.D.A.I). The difference between the current market forward price and the contracted forward price for each foreign exchange contract is calculated and then is applied to each outstanding contract. The market forward rates include a premium or a discount and the credit risk factor. The amounts are aggregated by type of contract and maturity.

## 21. TERM DEPOSITS

The following table summarizes the term deposits with various banks outstanding as of September 30, 2013 and December 31, 2012.

Balance Sheet Item	(In Millions)	
	As of September 30, 2013	As of December 31, 2012
Cash & Cash Equivalents	\$ 31.1	\$ 18.0
Short Term Investments	288.4	266.1
Non Current Assets	2.4	
Total	\$ 321.9	\$ 284.1

## 22. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2012, the FASB issued Accounting Standards Update No. 2012-02- Intangibles-Goodwill and Other (Topic 350)-Testing Indefinite-Lived Intangible Assets for Impairment. This Accounting Standards Update permits an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, Intangibles-Goodwill and Other-General Intangibles Other than Goodwill. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Previous guidance in Subtopic 350-30 required an entity to test indefinite-lived intangible assets for impairment, on at least an annual basis, by comparing the fair value of the asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. In accordance with the amendments in this Update, an entity will have an option not to calculate annually the fair value of an indefinite-lived intangible asset if the entity determines that it is not more likely than not that the asset is impaired. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in Update 2011-08. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The adoption of Accounting Standards Update 2012-02 did not have any significant impact on the Company's financial statement disclosures.

On February 5, 2013, the FASB issued Accounting Standards Update No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The amendments in the Update do not change the current requirements for reporting net income or other comprehensive income in financial

statements. All of the information that this Update requires already is required to be disclosed elsewhere in the financial statements under U.S. Generally Accepted Accounting Principles (U.S. GAAP). The new amendments will require an organization to: (i) Present (either

on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period,

(ii) Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense. The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). A private company is required to meet the reporting requirements of the amended paragraphs about the roll forward of accumulated other comprehensive income for both interim and annual reporting periods. However, private companies are only required to provide the information about the impact of reclassifications on line items of net income for annual reporting periods, not for interim reporting periods. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. The Company adopted this standard during the first quarter of 2013 and there was no significant impact on the Company's financial statements.

ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry forward, a Similar Tax Loss, or a Tax Credit Carry forward Exists, was issued on July 18, 2013. Under this guidance, an unrecognized tax benefit, or a portion of one, must be presented in the statement of financial position as a reduction of a deferred tax asset for a net operating loss (NOL) carry forward or a tax credit carry forward except to the extent a NOL or tax-credit carry forward at the reporting date is not available under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the entity does not intend to use the deferred tax asset for such purposes. In these situations, the unrecognized tax benefit would be presented as a liability and not combined with deferred tax assets.

The guidance requires no new disclosures and should be applied prospectively for public entities for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. Early adoption and adoption on a retrospective basis are permitted. The requirements of this ASU and its impact on the Company are being evaluated.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### SYNTEL INC. AND SUBSIDIARIES

#### RESULTS OF OPERATIONS

**Net Revenues.** The Company's revenues consist of fees derived from its Applications Outsourcing, Knowledge Process Outsourcing ( KPO ), e-Business and TeamSourcing business segments. Net revenues for the three months ended September 30, 2013 increased to \$209.9 million from \$186.4 million for the three months ended September 30, 2012, representing a 12.6% increase. Net revenues for the nine months ended September 30, 2013 increased to \$601.5 million from \$536.1 million for the nine months ended September 30, 2012, representing a 12.2% increase. The Company's verticalization sales strategy focusing on Banking and Financial Services; Healthcare; Insurance; Manufacturing; Retail; Logistics and Telecom has enabled better focus and relationships with key clients. Further, continued focus on execution and investments in new offerings such as our Testing and Center of Excellence have a potential to contribute growth in the business. The focus is to continue investments in more new offerings and geographical expansion. Worldwide billable headcount as of September 30, 2013 increased by 12.9% to 16,800 employees as compared to 14,876 employees as of September 30, 2012. However, the growth in revenues was not commensurate with the growth in the billable headcount. This is primarily because of a lower utilization of onsite resources. As of September 30, 2013, the Company had approximately 80.8% of its billable workforce in India as compared to 81.0% as of September 30, 2012. The Company's top five clients accounted for 62.5% of the total revenues in the three months ended September 30, 2013, down from 63.9 % of its total revenues in the three months ended September 30, 2012. The Company's top five clients accounted for 64.3% of the total revenues in the nine months ended September 30, 2013, up from 63.7% of its total revenues in the nine months ended September 30, 2012. Moreover, the Company's top 10 clients accounted for 76.2% of the total revenues in the three months ended September 30, 2013 as compared to 78.1% in the three months ended September 30, 2012. The Company's top 10 clients accounted for 77.8% of the total revenues in the nine months ended September 30, 2013 as compared to 78.1% in the nine months ended September 30, 2012. The Company's top 3-30 clients accounted for 54.5% of the total revenues in the three months ended September 30, 2013, up from 50.5% of its total revenues in the three months ended September 30, 2012. The Company's top 3-30 clients accounted for 52.6% of the total revenues in the nine months ended September 30, 2013, up from 50.7% of its total revenues in the nine months ended September 30, 2012.

**Cost of Revenues.** The Company's cost of revenues consists of costs directly associated with billable consultants in the US and offshore, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation and travel. The cost of revenues decreased to 53.4% of total revenue for the three months ended September 30, 2013, from 54.5% for the three months ended September 30, 2012. The 1.1% decrease in cost of revenues, as a percent of revenues, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, was attributable primarily to rupee depreciation and a decrease in travel expenses, offset by increases in headcount, salary increases for offshore and onsite employees and increased benefits costs in the third quarter of 2013. Salary increases are discretionary and determined by management.

The cost of revenues decreased to 56.9% of total revenue for the nine months ended September 30, 2013, from 57.1% for the nine months ended September 30, 2012. The 0.2% decrease in cost of revenues, as a percent of revenues, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, was attributable primarily to rupee depreciation and a decrease in travel expenses, offset by increases in headcount, salary increases for offshore and onsite employees and increased benefits costs.

**Applications Outsourcing Revenues.** Applications Outsourcing revenues increased to \$162.2 million for the three months ended September 30, 2013 or 77.3% of total revenues, from \$140.5 million, or 75.4 % of total revenues for the three months ended September 30, 2012. The \$21.7 million increase was attributable primarily to revenues from new engagements contributing \$95.7 million, largely offset by \$71.2 million in lost revenues as a result of project completion and a \$2.8 million net reduction in revenues from existing projects. The revenues for the nine months ended September 30, 2013 increased to \$461.7 million, or 76.8% of total revenues, from \$401.8 million or 74.9% of total revenues for the nine months ended September 30, 2012. The \$59.9 million increase for the nine months ended September 30, 2013 was attributable primarily to revenues from new engagements of \$250.0 million, largely offset by \$140.5 million in lost revenues as a result of project completion and a \$49.6 million net decrease in revenues from existing projects.

**Applications Outsourcing Cost of Revenues.** Applications Outsourcing cost of revenues consists of costs directly associated with billable consultants in the U.S. and offshore, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation and travel. Applications Outsourcing cost of revenues decreased to 56.8% of total Applications Outsourcing revenues for the three months ended September 30, 2013, from 57.9% for the three months ended September 30, 2012. The 1.1% decrease in cost of revenues, as a percent of revenues for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, was attributable primarily to rupee depreciation and a decrease in travel expenses, offset by increases in headcount, salary increases for offshore and onsite employees and increased benefits costs in the third quarter of 2013. Salary increases are discretionary and determined by management.

Applications Outsourcing cost of revenues for the nine months ended September 30, 2013 increased to 60.9% of total Applications Outsourcing revenues, from 60.7% for the nine months ended September 30, 2012. The 0.2% increase in cost of revenues, as a percent of revenues for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, was attributable primarily to increases in headcount, salary increases for offshore and onsite employees and increased benefits costs partially offset by rupee depreciation and a decrease in travel expenses.

**KPO Revenues.** KPO revenues increased to \$32.0 million for the three months ended September 30, 2013, or 15.2% of total revenues, from \$27.9 million, or 15.0 % of total revenues for the three months ended September 30, 2012. The \$4.1 million increase was attributable primarily to revenues from new engagements contributing \$3.6 million and a \$0.8 million net increase in revenues from existing projects, largely offset by \$0.3 million in lost revenues as a result of project completion. The revenues for the nine months ended September 30, 2013 increased to \$92.7 million, or 15.4% of the total revenues, from \$81.5 million or 15.2% of the total revenues for the nine months ended September 30, 2012. The \$11.2 million increase was attributable primarily to revenues from new engagements contributing \$7.7 million and a \$5.9 million net increase in revenues from existing projects, largely offset by \$2.4 million in lost revenues as a result of project completion.

**KPO Cost of Revenues.** KPO cost of revenues consists of costs directly associated with billable consultants, including salaries, payroll taxes, benefits, finder's fees, trainee compensation and travel. KPO cost of revenues decreased to 34.5% of total KPO revenues for the three months ended September 30, 2013, from 37.0% for the three months ended September 30, 2012. The 2.5% decrease in cost of revenues, as a percent of total KPO revenues for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, was attributable primarily to rupee depreciation and a decrease in travel expenses, offset by increases in headcount, salary increases for offshore and onsite employees and increased benefits costs and customer claims in the third quarter of 2013. Salary increases are discretionary and determined by management.

KPO cost of revenues for the nine months ended September 30, 2013 decreased to 36.1% of KPO revenues, from 37.7% for the nine months ended September 30, 2012. The 1.6% decrease in cost of revenues, as a percent of revenues for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, was attributable primarily to rupee depreciation and a decrease in travel expenses partially offset by increases in headcount, salary increases for offshore and onsite employees, and increased benefits costs, and customer claims.

**e-Business Revenues.** E-Business revenues decreased to \$13.5 million for the three months ended September 30, 2013, or 6.5% of total revenues from \$14.0 million for the three months ended September 30, 2012, or 7.5% of total revenues. The \$0.5 million decrease was attributable primarily to \$3.2 million in lost revenues as a result of project completion and a 0.2 million net decrease in revenues from existing projects, largely offset by a \$2.9 million increase in revenues from new engagements. The revenues for the nine months ended September 30, 2013 decreased to \$38.1 million, or 6.3% of total revenues, from \$41.6 million or 7.8% of total revenues for the nine months ended September 30, 2012. The \$3.5 million decrease was attributable primarily to \$5.7 million in lost revenues as a result of project completion and a 3.5 million net decrease in revenues from existing projects, largely offset by a 5.7 million increase in revenues from new engagements.

**e-Business Cost of Revenues.** e-Business cost of revenues consists of costs directly associated with billable consultants in the US and offshore, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation and travel. E-Business cost of revenues increased to 56.5% of total e-Business revenues for the three months ended September 30, 2013, from 54.3% for the three months ended September 30, 2012. The 2.2% increase in cost of revenues for the three months ended September 30, 2013, as a percent of total e-Business revenues, as compared to the three months ended September 30, 2012, was attributable primarily to increases in headcount, salary increases for offshore and onsite employees and increased benefits costs partially offset by rupee depreciation and a decrease in travel expenses in the third quarter of 2013. Salary increases are discretionary and determined by management.

e-Business cost of revenues for the nine months ended September 30, 2013 decreased to 58.2% of total e-business revenues, from 59.8% for the nine months ended September 30, 2012. The 1.6% decrease in cost of revenues, as a percent of revenues for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, was attributable primarily to rupee depreciation and a decrease in travel expenses partially offset by increases in headcount, salary increases for offshore and onsite employees, increased benefits costs.

**TeamSourcing Revenues.** TeamSourcing revenues decreased to \$2.2 million for the three months ended September 30, 2013, or 1.0% of total revenues, from \$4.0 million, or 2.1% of total revenues for the three months ended September 30, 2012. The \$1.8 million decrease was attributable primarily to a \$1.4 million decrease in revenues from existing projects and \$1.2 million in lost revenues as a result of project completion and conversion of staffing engagements into Syntel managed engagements, largely offset by \$0.8 million increase in revenues from new engagements and revenue from the Skillbay web portal, which helps clients of Syntel with their supplemental staffing requirements. The revenues for the nine months ended September 30, 2013 decreased to \$8.9 million, or 1.5% of total revenues, from \$11.2 million or 2.1% of total revenues for the nine months ended September 30, 2012. The \$2.3 million decrease was attributable principally to \$2.7 million decrease in revenues from existing projects and \$1.2 million decrease in revenue from project completion, largely offset by \$1.6 million increase in revenues from new engagements.

**TeamSourcing Cost of Revenues.** TeamSourcing cost of revenues consists of costs directly associated with billable consultants in the US, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation and travel. TeamSourcing cost of revenues increased to





62.2% of total TeamSourcing revenues for the three months ended September 30, 2013, from 55.8% for the three months ended September 30, 2012. The 6.4% increase in cost of revenues, for the three months ended September 30, 2013, as a percent of total TeamSourcing revenues, as compared to the three months ended September 30, 2012, was attributable primarily to increases in headcount, salary increases for offshore and onsite employees and increased benefits costs, partially offset by rupee depreciation and a decrease in travel expenses in the third quarter of 2013. Salary increases are discretionary and determined by management.

TeamSourcing cost of revenues for the nine months ended September 30, 2013 increased to 63.3% of total TeamSourcing revenues, from 58.4% for the nine months ended September 30, 2012. The 4.9% increase in cost of revenues, as a percent of revenues for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, was attributable primarily to increases in headcount, salary increases for offshore and onsite employees, increased benefits costs partially offset by rupee depreciation and a decrease in travel expenses.

**Selling, General, and Administrative Expenses.** Selling, general, and administrative expenses consist primarily of salaries, payroll taxes and benefits for sales, solutions, finance, administrative, and corporate staff; travel; telecommunications; business promotions; and marketing and various facility costs for the Company's global development centers and other offices.

Selling, general, and administrative expenses for the three months ended September 30, 2013 were \$23.1 million or 11.0% of total revenues, compared to \$29.0 million or 15.6% of total revenues for the three months ended September 30, 2012.

Selling, general and administrative expenses for the three months ended September 30, 2013 were impacted by an increase in revenue of \$23.5 million that resulted in a 1.4% decrease in selling, general and administrative expenses as a percentage of total revenue. The overall decrease in selling, general and administrative expenses was attributable to a decrease in corporate expenses of \$6.9 million primarily on account of foreign exchange gain, decrease in facility related cost of \$0.4 million, decrease in benefits of \$0.2 million and other expenses of \$0.1 million partially offset by increase in compensation due to increases in headcount and increased bonus provisions of \$1.2 million, travel expenses of \$0.3 million and other expenses of \$0.2 million.

Selling, general, and administrative expenses for the nine months ended September 30, 2013 were \$68.0 million or 11.3% of total revenues, compared to \$74.9 million or 14.0% of total revenues for the nine months ended September 30, 2012.

Selling, general and administrative expenses for the nine months ended September 30, 2013 were impacted by an increase in revenue of \$65.3 million resulting in a 1.4% decrease in selling, general and administrative expenses as a percentage of total revenue. The overall decrease in selling, general and administrative expenses was attributable to a decrease in corporate expenses of \$11.5 million due to foreign exchange gain of \$11.0 million and other expenses of \$0.5 million, decrease in facility related cost \$0.2 million, decrease in benefits of \$0.7 million and other expenses of \$0.1 million partially offset by increase in compensation due to increases in headcount and increased bonus provisions of \$4.6 million, travel expenses of \$0.4 million, increase in immigration expenses of \$0.2 million, increase in contract expenses of \$0.2 million and other expenses of \$0.2 million.

**Other Income (Expense), Net.** Other income includes interest and dividend income, gains and losses from sale of securities, other investments and hedging transactions.

Other income for the three months ended September 30, 2013 was \$1.6 million or 0.7% of total revenues, compared to \$10.0 million or 5.3% of total revenues for



the three months ended September 30, 2012. The decrease in other income of \$8.4 million was attributable to an increase in forward contract loss of \$7.1 million, decrease in interest income of \$0.4 million and decrease in gain on sale of assets of \$0.9 million during the three months ended September 30, 2013 compared to the three months ended September 30, 2012.

Other income for the nine months ended September 30, 2013 was \$9.6 million or 1.6% of total revenues, compared to \$20.7 million or 3.9% of total revenues for the nine months ended September 30, 2012. The decrease in other income of \$11.1 million was attributable to an increase in forward contract loss of \$11.0 million and a decrease in the gain on sale of assets of \$0.9 partially offset by an increase in mutual fund gain of \$0.8 million.

## Income Taxes

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

During the three months ended September 30, 2013 and 2012, the effective income tax rates were 22.0% and 21.7%, respectively. During the nine months ended September 30, 2013 and 2012, the effective income tax rates were 23.6% and 22.9%, respectively. The tax rate for the three and nine months ended September 30, 2013 was affected by the effective tax rate impact of change in the offshore/onshore profit mix of the Company and by certain Company facilities going out of tax holiday effective April 1, 2013.

The tax rate for the three months ended September 30, 2013 included a tax reversal of \$1.09 million which related to the true up of tax provisions, pursuant to finalization of the tax computation for filing tax returns of Syntel Limited, which had arisen on account of finalization of the actual numbers of expenses apportionment, wage reconciliations, meal disallowances etc., as against the amounts estimated earlier for the tax provisions.

## Other Comprehensive Income (Loss)

The Other Comprehensive Income (Loss) consists of foreign currency translation adjustments, gains (losses) on net investment hedge derivatives, unrealized gains (losses) on securities and a component of a defined benefit plan. During the three and nine months ended September 30, 2013 the Other Comprehensive Loss amounted to \$29.1 million and \$81.8 million, respectively, primarily attributable to foreign currency translation adjustments of \$27.4 million and \$75.3 million, for the three and nine months ended September 30, 2013, respectively.

During the three and nine months ended September 30, 2012 the Other Comprehensive income amounted to \$37.3 million and \$5.7 million, respectively, primarily attributable to foreign currency translation adjustments of \$35.9 million and \$6.4 million, respectively.

## FINANCIAL POSITION

**Cash and Cash Equivalents:** Cash and Cash equivalents increased to \$150.24 million at September 30, 2013 from \$86.7 million at September 30, 2012.



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## LIQUIDITY AND CAPITAL RESOURCES

The Company generally has financed its working capital needs through operations. The Mumbai, Chennai, Pune (India) and other expansion programs are financed from internally generated funds. The Company's cash and cash equivalents consist primarily of certificates of deposit and treasury notes. These amounts are held by various banking institutions including US-based and India-based banks. As of September 30, 2013, the total cash and cash equivalent and short term investment balance was \$578.7 million. Out of the above, an amount of \$520.4 million was held by Indian subsidiaries which was composed of an amount of \$88.8 million held in US dollars with the balance of the amount held in Indian rupees. The Company believes that the amount of cash and cash equivalent outside the U.S. will not have a material impact on liquidity.

Net cash generated by operating activities was \$114.5 million for the nine months ended September 30, 2013. Net cash generated by operating activities was \$124.3 million for the nine months ended September 30, 2012. The number of days sales outstanding in net accounts receivable was approximately 54 days and 52 days as of September 30, 2013 and 2012, respectively. The increase in the number of days sales outstanding in net accounts receivable was due to higher collections during the corresponding period in 2012.

Net cash used in investing activities was \$162.6 million for the nine months ended September 30, 2013, consisting principally of \$13.9 million of capital expenditures primarily for the construction/acquisition of the Global Development Center at Pune, the Knowledge Process Outsourcing facility at Mumbai and an additional facility in Chennai, the acquisition of computers, software and communications equipment and the purchase of mutual funds of \$251.3 million and the purchase of term deposits with banks of \$232.8 million, largely offset by \$162.1 million from sales of mutual funds and \$173.2 million from maturities of term deposits with banks. Net cash used in investing activities was \$133.2 million for the nine months ended September 30, 2012, consisting principally of \$22.9 million of capital expenditures primarily for the construction/acquisition of the Global Development Center at Pune, the Knowledge Process Outsourcing facility at Mumbai and an additional facility in Chennai, the acquisition of computers, software and communications equipment and the purchase of mutual funds of \$204.3 million and purchase of term deposits with banks of \$145.0 million, largely offset by \$152.6 million from sales of mutual funds, \$84.9 million from maturities of term deposits with banks and \$1.5 million from the sale of assets.

Net cash generated by financing activities was \$97.0 million for the nine months ended September 30, 2013 consisting principally of proceeds from a loan and borrowing of \$150.0 million offset by repayment of a loan and borrowing of \$53.0 million. Net cash used in financing activities was \$6.9 million for the nine months ended September 30, 2012, consisting principally of \$7.5 million in dividends paid out and partially offset by excess tax benefits on stock-based compensation plans of \$0.6 million during the nine months.

During the quarter ended December 31, 2012, Syntel utilized the full Line of Credit with JPMorgan Chase Bank NA of \$50 million and it was repaid in full on May 23rd, 2013.

On May 23, 2013, Syntel entered into a Credit Agreement with Bank of America, N.A. for \$150 million in credit facilities consisting of a three year term loan facility of \$60 million and a three year revolving credit facility of \$90 million. The Credit Agreement is guaranteed by two of the Company's domestic subsidiaries, SkillBay and Syntel Consulting (collectively, the Guarantors). In connection with the credit facilities, the Company and the Guarantors also entered into a related security and pledge agreement granting a security interest in the assets of the Company and the Guarantors, including, without limitation, a pledge of 65% of the equity interests in Syntel India.

The interest rates applicable to loans incurred under the Credit Agreement are (a) with respect to Revolving Loans, (i) the Eurodollar Rate plus 1.25% with respect to Eurodollar Loans and (ii) the Base Rate plus 0.25% with respect to Base Rate Loans, and (b) with respect to the Term Loan, (i) the Eurodollar Rate plus 1.50% with respect to Eurodollar Loans and (ii) the Base Rate plus 0.50% with respect to Base Rate Loans (each as defined in the Credit Agreement).

As at September 30, 2013, the interest rate was 1.51% for the three year revolving credit facility and was 1.76% for the three year term loan facility.

Principal payments on the term loan are due every quarter and during the three and nine months ended September 30, 2013 principal payments of \$1.5 million and \$3.0 million have been made, respectively. The related Credit Agreement requires compliance with certain financial ratios and covenants. As of September 30, 2013, the Company was in compliance with all debt covenants.

## **CRITICAL ACCOUNTING POLICIES**

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

**Revenue Recognition.** Revenue recognition is the most significant accounting policy for the Company. The Company recognizes revenue from time and material contracts as services are performed. During the three months ended September 30, 2013 and 2012 revenues from time and material contracts remained same at 62% of total revenues. Revenue from fixed-price, application management, maintenance and support engagements is recognized as earned, which generally results in straight-line revenue recognition as services are performed continuously over the term of the engagement. During the three months ended September 30, 2013 and 2012, revenues from fixed price application management and support engagements constituted 28% and 26% of total revenues, respectively.

Revenue on fixed price development projects is measured using the proportional performance method of accounting. Performance is generally measured based upon the efforts incurred to date in relation to the total estimated efforts required through the completion of the contract. The Company monitors estimates of total contract revenues and cost on a routine basis throughout the delivery period. The cumulative impact of any change in estimates of the contract revenues or costs is reflected in the period in which the change becomes known. In the event that a loss is anticipated on a particular contract, provision is made for the estimated loss. The Company issues invoices related to fixed price contracts based on either the achievement of milestones during a project or other contractual terms. Differences between the timing of billings and the recognition of revenue based upon the proportional performance method of accounting are recorded as revenue earned in excess of billings or deferred revenue in the accompanying financial statements. During the three months ended September 30, 2013 and 2012, revenues from fixed price development contracts constituted 10% and 12% of total revenues, respectively.

## **Significant Accounting Estimates**

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



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

**Allowance for Doubtful Accounts.** The Company records an allowance for doubtful accounts based on a specific review of aged receivables. As at September 30, 2013 and December 31, 2012, the allowance for doubtful accounts was \$2.0 million and \$2.2 million, respectively. The provision for the allowance for doubtful accounts is recorded in selling, general and administrative expenses. These estimates are based on our assessment of the probable collection from specific client accounts, the aging of the accounts receivable, analysis of credit data, bad debt write-offs and other known factors.

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

**Accruals for Legal Expenses and Exposures.** The Company is party to various legal actions arising in the ordinary course of business, including litigation and governmental and regulatory controls. The Company has not accrued any liability for legal contingencies as no legal contingency has been deemed to be probable of occurring. The Company's estimates regarding legal contingencies are based on information known about the matters and its experience in contesting, litigating and settling similar matters. It is the opinion of management with respect to pending or threatened litigation matters that unfavorable outcomes are neither probable nor remote and that estimates of possible loss are not able to be made. Although actual amounts could differ from management's estimates, none of the actions are believed by management to involve future amounts that would be material to the Company's financial position or results of operations.

The Company estimates the costs associated with known legal exposures and their related legal expenses and accrues reserves for either the probable liability, if that amount can be reasonably estimated, or otherwise the lower end of an estimated range of potential liability. There was no accrual related to litigation at September 30, 2013 and December 31, 2012.

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



## FORWARD LOOKING STATEMENTS

Certain information and statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this report, including the allowance for doubtful accounts, contingencies and litigation, potential tax liabilities, interest rate or foreign currency risks, and projections regarding our liquidity and capital resources, could be construed as forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Forward-looking statements include statements containing words such as "could", "expects", "may", "anticipates", "believes", "estimates", "plans", and similar expressions. In addition, the Company or persons acting on its behalf may, from time to time, publish other forward looking statements. Such forward looking statements are based on management's estimates, assumptions and projections and are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in the forward looking statements.

Although management believes that the expectations, forecasts and goals reflected in these forward-looking statements are reasonable, actual results could differ materially for a variety of reasons, including, without limitation, the risks and uncertainties detailed in Item 1A. Risk Factors in the Company's annual report on Form 10-K for the year ended December 31, 2012.

Other factors not currently anticipated may also materially and adversely affect our results of operations, cash flows, financial position and prospects. There can be no assurance that future results will meet expectations. While we believe that the forward-looking statements in this Quarterly Report on Form 10-Q are reasonable, you should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaim any obligation to update or alter any statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

### *Interest Rate Risk*

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

	September 30, 2013	December 31, 2012
	<i>(in thousands)</i>	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 150,240	\$ 94,622
Short term investments	428,501	326,653
Total	\$ 578,741	\$ 421,275

The Company's exposure to market rate risk for changes in interest rates relates primarily to its investment portfolio. The Company does not use derivative financial instruments in its investment portfolio. The Company's investments are in high-quality Indian Mutual Funds and, by policy, limit the amount of credit exposure to any one issuer. At any

time, changes in interest rates could have a material impact on interest earnings for our investment portfolio. The Company strives to protect and preserve our invested funds by limiting default, market and reinvestment risk. Investments in interest earning instruments carry a degree of interest rate risk. Floating rate securities may produce less income

than expected if there is a decline in interest rates. Due in part to these factors, the Company's future investment income may fall short of expectations, or the Company may suffer a loss in principal if the Company is forced to sell securities, which have declined in market value due to changes in interest rates as stated above.

### ***Foreign Currency Risk***

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

During the three months ended September 30, 2013, the Indian rupee has depreciated against the U.S. dollar by 11.48% as compared to the three months ended June 30, 2013. This rupee depreciation positively impacted the Company's gross margin by 2.56%, operating income by 3.64% and net income by 3.75%, each as a percentage of revenue. The Indian rupee denominated cost of revenues and selling, general and administrative expense was 42.8% and 85.7% of the expenses, respectively.

The rupee depreciation has also resulted in foreign currency translation adjustments of \$27.39 million during the three months ended September 30, 2013, which has been reported as Other Comprehensive Income/(Loss).

Although the Company cannot predict future movement in interest rates or fluctuations in foreign currency rates, the Company does not currently anticipate that interest rate risk or foreign currency risk will have a significant impact. In order to limit the exposure to interest rate or fluctuations in foreign currency rates, the Company entered into foreign exchange forward contracts where the counter party is a bank during the three months ended September 30, 2013, but these contracts do not have a material impact on the financial statements.

During the quarter ended September 30, 2013, the Company entered into foreign exchange forward contracts amounting to \$13 million to hedge part of its revenues. The counter party to the foreign exchange forward contracts is a bank. The Company considers the risks of non-performance by the counter party as not material. Aggregate contracted principal amounts of contracts outstanding amounted to \$101 million as of September 30, 2013. The outstanding foreign exchange forward contracts as of September 30, 2013 mature in three months. The fair value of the foreign exchange forward contracts and of currency options in the amount of \$4 million is reflected in other current liabilities in the balance sheet of the Company as of September 30, 2013. Net gains/(losses) on foreign exchange forward contracts are included under the heading "Other Income" in the Statement of Comprehensive Income for the three months ended September 30, 2013 and amounted to a \$5.57 million loss.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### **Disclosure Controls and Procedures**

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

##### **Changes in Internal Control over Financial Reporting**

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

PART II

**OTHER INFORMATION**

**Item 1. Legal Proceedings.**

While the Company is a party to ordinary routine litigation incidental to the business, the Company is not currently a party to any material legal proceeding or governmental investigation. In the opinion of our management, the outcome of such claims and legal actions, if decided adversely, is not expected to have a material adverse effect on our quarterly or annual operating results, cash flows or consolidated financial position.

**Item 1A. Risk Factors.**

There have been no material changes in the Company's risk factors as disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2012.

**Item 6. Exhibits.**

The Company's Chairman shares certain principal executive officer responsibilities with the Company's Chief Executive Officer and President. Therefore, in accordance with Rule 13a-14(a)/Rule 15d-14(a), both the Chairman and the Chief Executive Officer and President sign a 302 certification and the 906 certification as principal executive officers.

*Exhibits*

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer.
31.3	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
32	Section 1350 Certification of Principal Executive Officers and Principal Financial Officer.
<b>101.INS</b>	<b>XBRL Instance Document</b>
<b>101.SCH</b>	<b>XBRL Taxonomy Extension Schema</b>
<b>101.CAL</b>	<b>XBRL Taxonomy Extension Calculation Linkbase</b>
<b>101.DEF</b>	<b>XBRL Taxonomy Extension Definition Linkbase</b>
<b>101.LAB</b>	<b>XBRL Taxonomy Extension Label Linkbase</b>
<b>101.PRE</b>	<b>XBRL Taxonomy Extension Presentation Linkbase</b>

## SIGNATURES

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

SYNTEL, INC.

Date : November 6, 2013

/s/ Prashant Ranade  
Prashant Ranade,  
Chief Executive Officer and President (principal  
executive officer)

Date : November 6, 2013

/s/ Arvind Godbole  
Arvind Godbole,  
Chief Financial Officer and  
Chief Information Security Officer (principal financial  
officer and principal accounting officer)

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**EXHIBIT INDEX**

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