Patni Computer Systems LTD
Form 20-F
February 26, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2009**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
o	**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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

For the transition period from **to**

Commission file number 001-32692

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

Not applicable
(Translation of Registrant s name into English)

Republic of India
(Jurisdiction of incorporation or organization)

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

Surjeet Singh, Chief Financial Officer, +91 22 6693 0500, surjeet.singh@patni.com

Akruti Softech Park, MIDC, Cross Road No. 21, Andheri (E), Mumbai 400 093, India
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

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

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

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

None
(Title of Class)

(Title of Class)

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

Not applicable
(Title of Class)

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

Equity shares: 129,126,032

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

o Yes x No

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

o Yes x No

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

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

x Yes o 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).

o Yes o No

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

U.S. GAAP x	International Financial Reporting Standards as issued by the International Accounting Standards Board o	Other o

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

o Item 17 x Item 18

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

o Yes x No

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

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

o Yes o No

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CURRENCY OF PRESENTATION AND CERTAIN DEFINED TERMS

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

- we, us, , our , our company and Patni are to Patni Computer Systems Limited and its consolidated subsidiarie
- India are to the Republic of India;
- Japanese Yen and JPY are to the legal currency of Japan; and all references to
- Euro are to the legal currency of the European Union;
- AUD are to the legal currency of the Commonwealth of Australia;
- GBP are to the legal currency of the United Kingdom of Great Britain and Northern Ireland;
- Singapore Dollar and SGD are to the legal currency of Singapore;
- Indian rupees, rupees and Rs. are to the legal currency of India;
- U.S. dollars, dollars or US $ or $ are to the legal currency of the United States; and
- a particular fiscal year are to our fiscal year ended December 31 of such year.

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

Except as otherwise stated in this Annual Report, all translations from Indian rupees to U.S. dollars contained in this Annual Report have been based on the noon buying rate published by the Federal Reserve Board on December 31, 2009 in Indian rupees, which was Rs. 46.40 per $ 1.00.

Information contained in our websites, including our corporate website, www.patni.com, is not part of this Annual Report.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our ability to attract and retain clients;
- the anticipated benefits and risks associated with our business strategy, including those relating to our current and future service offerings;
- our future operating results;
- the anticipated benefits and risks of our strategic customer relationships and acquisitions;
- the anticipated size or trends of the market segments in which we compete and the anticipated competition in those markets;
- government regulation and the outcome of any tax, legal or regulatory review, action or litigation; and
- our future capital requirements and our ability to satisfy our capital needs.

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

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

This Annual Report includes statistical data about the IT industry that comes from information published by sources including Gartner, Inc., or Gartner, a provider of market information and strategic information for the IT industry, and the National Association of Software and Service Companies, or NASSCOM, an industry trade group. This type of data represents only the estimates of Gartner, NASSCOM, and other sources of industry data.

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In addition, although we believe that data from these sources is generally reliable, this type of data is inherently imprecise. We caution you not to place undue reliance on this data.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A. Selected financial data

The selected consolidated historical financial data set forth below should be read in conjunction with our consolidated financial statements, the notes to those statements and Item 5. Operating and Financial Review and Prospects included elsewhere in this Annual Report. The selected data presented below under the captions Statement of Income Data , Balance Sheet Data and Cash Flow Data for, as of and for each of the years in the five-year period ended December 31, 2009, are derived from our audited consolidated financial statements (except for cash dividend per equity share) and have been prepared and presented in accordance with U.S. GAAP. The consolidated financial statements as of December 31, 2008 and 2009, and for each of the years in the three-year period ended December 31, 2009, and the report of our independent registered public accounting firm thereon, are included elsewhere in this Annual Report. Historical results are not necessarily indicative of the results to be expected for any future period.

	Fiscal Year ended December 31,				
	2005	2006	2007	2008	2009
	(in thousands, except share data and per share)				
Statement of Income Data					
Net Revenues	$ 450,332	$ 578,851	$ 662,912	$ 718,884	$ 655,918
Cost of revenues	292,456	373,966	450,085	491,266	421,309
Gross Profit	$ 157,876	$ 204,885	$ 212,827	$ 227,618	$ 234,609
Selling, general and administrative	85,906	106,472	116,260	131,056	122,010
Provision for doubtful debts and advances	(152)	1,191	1,182	1,626	2,267
Foreign exchange (gain) loss, net	1,693	2,748	(23,351)	18,359	9,693
Operating Income	$ 70,429	$ 94,474	$ 118,736	$ 76,577	$ 100,639
Other Income / (Expense)					
Interest and dividend income	4,190	10,088	12,540	13,002	11,223
Interest expense	(2,044)	(2,840)	(3,592)	(1,744)	(1,494)
Interest expense reversed				6,497	2,808
Gain on sale of investments, net	1,128	1,679	6,370	9,732	9,468
Other income (expenses), net	966	3,541	1,706	2,561	1,894
Income before income taxes	$ 74,669	$ 106,942	$ 135,760	$ 106,625	$ 124,538
Income taxes	13,802	47,692	21,784	5,204	4,759
Net income	$ 60,867	$ 59,250	$ 113,976	$ 101,421	$ 119,779
Earnings per share, basic & diluted					
Basic	$ 0.48	$ 0.43	$ 0.82	$ 0.75	$ 0.93
Diluted	$ 0.48	$ 0.43	$ 0.82	$ 0.75	$ 0.92
Weighted average number of common shares used in computing earnings per share					
Basic	125,736,592	137,957,477	138,660,785	135,590,677	128,254,916
Diluted	127,457,632	138,904,860	139,569,933	135,760,422	130,241,085
Cash dividend per equity share ($)	$ 0.046	$ 0.057	$ 0.086	$ 0.082	$ 0.072
Cash dividend per equity share (Rs.)	Rs 2.50	Rs 3.00	Rs 3.00	Rs 3.00	Rs 3.00

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	Fiscal Year ended December 31,				
	2005	2006	2007	2008	2009
Balance Sheet Data					
Cash and cash equivalents	$ 148,820	$ 46,510	$ 32,626	$ 60,138	$ 63,459
Investments in securities	141,776	246,016	301,152	248,299	375,858
Total assets	553,886	640,341	856,226	765,342	901,181
Capital lease obligations	706	692	604	360	203
Total shareholders equity	439,029	508,593	680,964	570,956	747,034

	Fiscal Year ended December 31,				
	2005	2006	2007	2008	2009
			(in thousands)		
Cash Flow Data					
Net cash provided by / (used in):					
Operating activities	$ 73,058	$ 59,091	$ 111,272	$ 149,343	$ 137,206
Investing activities	(111,750)	(155,426)	(130,036)	(35,531)	(132,699)
Financing activities	111,875	(7,106)	(8,682)	(64,589)	(3,150)
Capital expenditures	(53,282)	(48,620)	(61,891)	(43,362)	(18,983)

Exchange rates

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

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

Year	Average	High	Low	Period-End
2005	44.00	46.26	43.05	44.95
2006	45.19	46.83	43.89	44.11
2007	41.19	44.49	38.48	39.41
2008	43.39	50.12	39.12	48.58
2009	48.33	51.96	46.00	46.40
2010 (through February 22, 2010)	46.08	46.79	45.35	46.21

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

	High	Low
August 2009	48.90	47.27
September 2009	49.05	47.75
October 2009	47.72	46.00
November 2009	47.37	46.06
December 2009	46.85	46.00
January 2010	46.35	45.35
February 2010 (through February 22, 2010)	46.79	45.97

On February 22, 2010 the noon buying rate published by the Federal Reserve Board was Rs.46.21 per $ 1.

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3.B. Capitalization and indebtedness

Not applicable.

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

Not applicable.

3.D. Risk factors

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

Risks Related to our Operations

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

We derive a significant portion of our revenues from a limited number of clients in a few select industries. In 2007, 2008 and 2009 our top two clients, accounted for 20.9% 20.5% and 22.3% of our revenues, respectively. In 2007, 2008 and 2009 our top ten clients accounted for 47.6%, 45.6% and 49.7% of our revenues, respectively. As a result of our reliance on a limited number of clients, we may face pricing and other competitive pressures. The volume of work performed for specific clients is likely to vary from year to year, especially since we are not the exclusive external service provider for our clients. In addition, there are a number of factors, other than our performance, that could cause the loss of a client and that may not be predictable. For example, our clients may decide to reduce spending on IT services or sourcing from us due to a challenging economic environment and other factors, internal and external, relating to their business such as restructuring or supplier rationalizations. The loss of any one of our major clients, a decrease in the volume of work they outsource to us or a decrease in the price at which we sell our services to them could adversely affect our revenues.

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

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

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

In 2007, 2008 and 2009, approximately 77.9%, 75.9% and 78.9% of our revenues, respectively were derived from clients located in the United States and 14.7%, 15.7% and 12.7% of our revenues, respectively were derived from clients located in Europe. The economic slowdown in the United States and Europe witnessed during the fourth quarter of 2008 and the entire year 2009, has resulted in our clients reducing or postponing their technology spending significantly, which in turn has had a negative impact on the revenues for the year 2009. If the global economic conditions continue or worsen our business could be negatively affected in the future.

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

We derive a large proportion of our revenues from clients which operate in a limited number of industries. In 2007, 2008 and 2009, we derived 23.6%, 24.7% and 29.7% of our revenues, respectively from the insurance industry, 27.0%, 28.9% and 29.0% of our revenues, respectively from the manufacturing retail and distribution industry, 18.3%, 17.9% and 13.5% of our revenues, respectively from the communications, media and utilities industry, and 14.1%, 12.8% and 12.8% of our revenues, respectively from the financial services industry,. The ongoing crisis in the financial and credit markets, particularly, in the United States, has led to a significant change in the financial services industry, with the United States federal government and other national governments being forced to take over or provide financial support to leading financial institutions and with leading investment

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banks going bankrupt or being forced to sell themselves in distressed circumstances. Significant changes in the financial services industry or any of the other industries on which we focus, or a significant consolidation in any such industry, may reduce the demand for our services and negatively affect our revenues and profitability. Any significant decrease in IT services spending by clients in these industries or other industries from which we derive significant revenues in the future may reduce the demand for our services. Further, any significant decrease in the growth of the insurance, manufacturing, retail and distribution, financial services or communications, media and utilities industries, or significant consolidation in those industries, or any decrease in growth or consolidation in other industry segments in which we operate, may reduce the demand for our services.

***The ongoing financial crisis has caused and could continue to negatively affect our business, results of operations and financial condition*.**

Global economic and political conditions affect our clients businesses and the markets they serve. The global economic downturn seen in the fiscal 2009 had reduced, demand for our services and has also caused clients to request additional price concessions. For example our net revenues decreased from $718.8 million in 2008 to $655.9 million in 2009. If current global economic conditions continue or worsen, or if economic contraction continues in the industries or geographies where we operate, our business could be adversely affected by our clients financial condition and the levels of business activity in the industries we serve which could have a material adverse effect on our results of operations. Changes in global economic conditions could also shift demand to services for which we do not have competitive advantages, and this could negatively affect the amount of business that we are able to obtain. Negative or uncertain political climates in countries or geographies where we operate could also adversely affect us. In addition, if we are unable to successfully anticipate changing economic and political conditions, we may be unable to effectively plan for or respond to those changes, and our business could be negatively affected.

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

Our ability to execute projects and to obtain new clients depends largely on our ability to attract, train, motivate and retain highly-skilled software professionals, particularly project managers and other mid-level professionals. Our attrition rates were, 26.5%, 20.0% and 15.4% in 2007, 2008 and 2009. We define our attrition rate as the ratio of the number of employees who have left us during a defined period to the average number of employees who are on our payroll during such period.

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

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

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

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

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

- variations, expected or unexpected, in the duration, size, timing and scope of our projects, particularly with our major clients;

- changes in our pricing policies or those of our clients or competitors;

- the proportion of services that we perform in our development centers in India as opposed to outside India;

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- the effect of seasonal hiring patterns, unanticipated attrition and the time required to train and productively utilize our new employees, particularly software professionals;

- annual increases in compensation of our employees;

- the size and timing of expansion of our facilities;

- unanticipated cancellations, non-renewal of our contracts by our clients, contract terminations or deferrals of projects; and

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

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

- the duration of tax holidays or exemptions and the availability of other Government of India incentives;

- the outcome of any tax, legal or regulatory review, action or litigation;

- currency exchange rate fluctuations, particularly when the rupee appreciates in value against the U.S. dollar since the majority of our revenues are in U.S. dollars and a significant part of our expenses are in rupees; and

- other general economic factors.

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

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

Our earnings may be adversely affected if we receive an adverse determination resulting from a pending U.S. Internal Revenue Service tax review of our U.S. operations.

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

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

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

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

- international IT services companies, such as Accenture, Cognizant Technology Solutions, Computer Sciences Corporation and Sapient Corporation;

- divisions of large multinational technology firms such as IBM, and Hewlett-Packard Company, or Hewlett-Packard;

- in-house IT departments of large corporations;

- other international, national, regional and local firms from a variety of market segments, including major international accounting firms, systems consulting and implementation firms, applications software firms, service groups of computer equipment companies, general management consulting firms, programming companies and temporary staffing firms;

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- offshore service providers in other countries with low wage costs such as China and the Philippines, and countries in Eastern Europe and Latin America; and

- involvement of third party intermediaries who negotiate IT services and outsourcing contracts on behalf of their clients.

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

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

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

Our revenues have grown at a compound annual growth rate, or CAGR, of 9.9% from $ 450.3 million in 2005 to $ 655.9 million in 2009. The total number of our employees has grown from 11,802 as of December 31, 2005 to 13,995 as of December 31, 2009.

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

- augmented our offerings in our service lines in business process outsourcing, product engineering, infrastructure management services and quality assurance;
- gained expertise and operations in the provision of services to clients in the communications, media and utilities industry through our acquisition of Patni Telecom Solutions, Inc., or Patni Telecom (formerly Cymbal Corporation, or Cymbal) and Logan Orviss International, or Logan Orviss;
- expanded our expertise and market specific services in the life sciences practice through our acquisition of Patni Life Sciences Inc. (formerly Taratec Development Corporation, or Taratec);
- expanded our expertise and operations in our product engineering technology practices;
- enhanced our operations in Europe and Asia; and
- expanded our facilities in India.

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

- recruiting, training and retaining sufficient skilled technical, sales and management personnel;
- adhering to our high quality and process execution standards;
- maintaining high levels of client satisfaction;

- creating and managing economies of scale;

- managing a larger number of clients in a greater number of industry sectors;

- integrating expanded operations while preserving our culture, values and entrepreneurial environment; and

- developing and improving our internal administrative infrastructure, particularly our financial, operational, communications and other internal systems.

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

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

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

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

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

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

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

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

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

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

We expect to invest approximately $ 20 million to $ 25 million in capital expenditures in 2010. Most of the new spending will be for construction of new facilities and physical infrastructure. However, we may not receive the benefits that we expect from our investment in these facilities. Further, we may encounter cost overruns or project delays in connection with new facilities. These expansions will increase our fixed costs. If we are unable to grow our business and revenues proportionately, our profitability will be reduced. See Item 4.D. Information on the Company Property, plant and equipment.

We are subject to risks arising from exchange rate fluctuations.

Although our functional currency is the Indian rupee, we transact a significant portion of our business in several other currencies, particularly the U.S. dollar. Our exchange rate risk primarily arises from our foreign currency revenues, receivables, payables and other foreign currency assets and liabilities. We expect that a majority of our revenues will continue to be generated in U.S. dollars for the foreseeable future. In 2007, 2008 and 2009 our dollar denominated revenues represented 82.9%, 80.7% and 84.0% of our total revenues respectively.

A significant portion of our expenses, comprising the cost of revenues and selling, marketing and general administrative expenses, are and will continue to be denominated and incurred in Indian rupees. In 2007, 2008, and 2009 rupee costs represented 42%, 40.8% and 37.5% of these cost of revenues and selling, marketing and general administrative expenses. Therefore, changes in the exchange rate between the rupee and other currencies, especially with respect to the U.S. dollar, may have a material adverse effect on our revenues, other income, cost of services, operating costs and net income, which may in turn have a negative impact on our business, operating results and financial condition. On December 31, 2009, the exchange rate per U.S. dollar was Rs. 46.40 compared to Rs. 48.58 on December 31, 2008 and Rs. 39.41 on December 31, 2007. On February 22, 2010 the exchange rate per US $ was Rs.46.21. The exchange rate between the rupee and the dollar has changed substantially in recent years and may fluctuate substantially in the future.

We have sought to reduce the effect of exchange rate fluctuations on our operating results by purchasing derivative instruments such as foreign exchange forward contracts, purchased options and net written options. As of December 31, 2009, we had outstanding forward contracts in the amount of $ 309.6 million, JPY 875.0 million ($ 9.5 million), and GBP 2.9 million ($ 4.8 million) and outstanding currency purchased options in the amount of $10.0 million. We have increased our foreign currency hedging activity given the recent volatility in the value of the Indian rupee against the U.S. dollar. However, we may not be able to purchase contracts to insulate ourselves adequately from foreign currency exchange risks. In addition, any such contracts may not perform

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effectively as a hedging mechanism or we may incur losses in such derivative instruments which may adversely affect our profits in a quarter or a financial year. In 2008 and 2009 we had a net foreign exchange loss $18.4 million and $ 9.7 million and in 2007 we had a net foreign exchange gain of $ 23.4 million. See Item 11.Quantitative and Qualitative Disclosures about Market Risk Components of Market Risk - Exchange Rate Risk .

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

We are highly dependent on our Chairman, Chief Executive Officer, Chief Financial Officer and other members of the executive leadership team. Our future performance will be dependent upon the continued service of these persons. We do not maintain key man life insurance for any of the senior members of our management team or other key personnel. Competition for senior management in our industry is intense, and we may not be able to retain such senior management personnel or attract and retain new senior management personnel in the future. The loss of any of the members of our senior management or other key personnel may adversely affect our business.

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

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

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

We derived 32.4%,36.0% and 40.6% of our revenues from fixed-price contracts in 2007, 2008 and 2009. We bear the risk of cost overruns, completion delays and wage inflation in connection with all fixed-price projects, any of which may result in a decrease in our margins from work performed on fixed-price contracts. Our revenues from fixed-price contracts also include revenues from fixed-price SLAs, which are conditioned upon our meeting predetermined performance levels. Any failure to meet such performance levels could result in a reduction in our revenues. Any failure to accurately estimate the resources and time required for a project or any failure to complete our contractual obligations at the committed performance level could adversely affect our revenues and profitability.

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

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

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

Many of our contracts involve projects that are critical to the operations of our clients businesses. Further, our client contracts may require us to comply with certain security obligations including maintaining network security and back-up data, ensuring our network is virus free and verifying the integrity of employees who work with our clients by conducting background checks. Any failure in a client s system or breach of security relating to the services we provide to the client could damage our reputation or result in a claim for substantial damages against us. We cannot assure you that any limitations of liability set forth in our service contracts will be enforceable in all instances or will otherwise protect us from liability for damages in the event of a claim for breach of our obligations. Our insurance coverage may not be sufficient for all such claims or damages and additional insurance coverage may not be available in the future on reasonable terms or in amounts sufficient to

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cover large claims. Successful assertions of one or more large claims against us could have a significant adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

We rely on a combination of copyright, trademark and design laws, confidentiality procedures and contractual provisions to protect our intellectual property, including our brand identity. However, the laws of India may not protect intellectual property rights to the same extent as laws in the United States. Therefore, our efforts to protect our intellectual property may not be adequate and we may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights. Our competitors may independently develop proprietary methodologies similar to ours or duplicate our products or services. Unauthorized parties may infringe upon or misappropriate our services or proprietary information. The misappropriation or duplication of our intellectual property could disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses. We may need to litigate to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could be time consuming and costly and the outcome of any such litigation cannot be guaranteed. For more information regarding our intellectual property, see Item 4.B. Information on the Company Business Overview - Intellectual Property.

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

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

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

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

An H-1B visa may be granted to certain categories of persons in several specialty occupations including software professionals such as our employees, so long as their compensation meets annually adjusted minimums and the position being filled qualifies as a specialty occupation. Those adjustments may force increases in the salaries we pay to our employees with H-1B visas, resulting in lower profit margins. Although there is currently no limit to new L-1 visas, there is a limit to the aggregate number of new H-1B visas that may be approved by the United States government in any fiscal year. We believe that the demand for H-1B visas will continue to be high. Further, the United States government has increased the level of scrutiny in granting these visas. This may lead to limits on the number of L-1 visas granted. The U.S. immigration laws also require us to comply with other legal requirements including those relating to displacement and secondary displacement of U.S. workers and recruiting and hiring of U.S. workers, as a condition to obtaining or maintaining work visas for our software professionals working in the United States.

Immigration laws in the United States and in other countries are subject to legislative change, as well as to variations in standards of application and enforcement due to political forces and economic conditions. It is difficult to predict the political and economic events that could affect immigration laws, or the restrictive impact they could have on obtaining or monitoring work visas for our software professionals. Our reliance on work visas for a significant number of software professionals makes us particularly vulnerable to such changes and variations. As a result, we may not be able to obtain a sufficient number of visas for our software professionals or may encounter delays or additional costs in obtaining or maintaining such visas.

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

Wage costs in India have historically been significantly lower than wage costs in the United States and Europe for comparably skilled professionals, which has been one of our competitive strengths. However, wage increases in India may prevent us from sustaining this competitive advantage and may negatively affect our profit margins**.**

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

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

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

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

In anticipation of the complete phase out of the tax holidays on March 31, 2011, we expect to continue to locate a portion of our new development centers in areas designated as SEZ s. Development centers operating in SEZs will be entitled to certain income tax incentives for periods of up to 15 years. The Indian government has proposed certain interpretive positions regarding the tax incentives applicable to SEZs. The Indian government has discussed making further changes in the SEZ policies which could be adverse to our operations.

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

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Any increases in our effective tax rate as a result of the expiration of tax benefits we currently enjoy, changes in applicable tax laws or the actions of applicable income tax or other regulatory authorities could materially reduce our profitability. For more information, See Item 5.A. Operating and Financial Review and Prospects Operating Results Taxes .

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

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

Anti-takeover provisions under Indian law could prevent or deter an entity from acquiring control of us.

Indian takeover regulations contain certain provisions that may delay, deter or prevent a future takeover or change in control of us. These provisions may discourage a third party from attempting to take control of our Company, even if a change in control would result in the purchase of ADSs at a premium to the market price or would otherwise be beneficial to our ADS holders. See Item 10. B. Additional Information Takeover Code.

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

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

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

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

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

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

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

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

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

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

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

- effect service of process upon us or our directors and executive officers; or

- enforce judgments obtained in the United States courts against us or such persons in the United States, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States.

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Our ADSs and our Trading Market

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

Sales of a substantial number of equity shares, including sales by our insiders, significant shareholders, directors or executive officers whether on the Indian stock exchanges or into the United States of ADSs or otherwise, or the perception that such sales may occur, could adversely affect the market price of the ADSs and our equity shares or our ability to raise capital through an offering of our securities. In the future, we may also sponsor the sale of shares currently held by some of our shareholders, or issue new shares. We can make no prediction as to the timing of any such sales or the effect, if any, that future sales of our equity shares, or the availability of our equity shares for future sale, will have on the market price of our equity shares or ADSs prevailing from time to time. In addition, we have adopted an employee stock option plan as a means to reward and motivate our employees. You may experience dilution of your shareholding to the extent that we make future equity offerings or issue equity shares pursuant to the exercise of stock options under our employee stock option plan.

We have controlling shareholders who have the ability to exercise significant control over us, and whose interests may conflict with the interests of our other shareholders.

Mr. Narendra K. Patni, Mr. Gajendra K. Patni and Mr. Ashok K. Patni, together with their families and entities controlled by them, and General Atlantic Mauritius Limited, or General Atlantic, own 16.01%, 14.99%, 15.51% and 17.73% of our outstanding equity shares, respectively, as of February 19, 2010.

Our Articles of Association confer certain rights on our controlling shareholders relating to our governance, including representation on our Board of Directors and an ability to adjourn a shareholder or Board of Directors meeting for lack of quorum if their representative is not present at the first such meeting. In addition, our Articles of Association can only be amended if members holding not less than 75% of our equity shares (and who are entitled to vote) cast votes in favor of such amendments and such votes include the favorable votes of each of the controlling shareholders, so long as the respective groups hold at least 10% of our equity shares and vote on such amendment. Pursuant to the terms of our Articles of Association, Mr. Narendra K. Patni is the permanent Chairman of our Board, with a tie-breaking vote in the event of a tie.

Pursuant to an employment agreement between our U.S. subsidiary, Patni Americas, Inc., (formerly Patni Computer Systems, Inc.) and Mr. Narendra K. Patni, Mr. Narendra K. Patni served as the Chief Executive Officer of our U.S. subsidiary Patni Americas, Inc and pursuant to the consultancy agreement between our U.S. subsidiary and us, Mr. Narendra K. Patni was seconded as our Chief Executive Officer. The aforesaid employment agreement with Mr. Narendra K. Patni had an initial term expiring on December 31, 2008 which, now, has been extended until December 31, 2013 unless terminated earlier pursuant to the Employment Agreement amendment dated February 20, 2009. While Mr. Narendra K. Patni has ceased to be our Chief Executive Officer since February 20 2009, he continues to be our Chairman. In addition, our Board of Directors had approved the extension of the Consultancy agreement to December 31, 2010. Pursuant to the Consultancy Agreement amendment dated February 20, 2009, the consultancy agreement with Patni Americas Inc can be terminated only on or after December 31, 2010 (upon giving one month s written notice to Patni Americas Inc) and such termination will take effect on the expiration of such period of notice.

Mr. Gajendra K. Patni and Mr. Ashok K. Patni, together with their family members, have management control of certain companies, which include PCS Technology Limited, PCS International Limited, PCS Cullinet Private Limited, PCS Finance Private Limited and Ashoka Computer Systems Private Limited. We have not entered into any non-solicitation or non-compete agreements with any of these shareholders individually or with these companies. While these companies currently are not competing with us to a material extent, we cannot assure you that in the future they may not compete with us, may not solicit our employees or otherwise have interests that may not conflict with ours.

Each of the four controlling shareholders has the right to appoint one director to our Board of Directors so long as such controlling shareholder holds 5% or more of our equity shares.

Accordingly, our controlling shareholders have the ability to exercise significant influence over our management, including over matters requiring shareholder approval or approval by our Board of Directors. This could delay, defer or prevent a change in control, impede a merger, consolidation, take-over or other business combination involving us, or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

Certain of our shareholders also have certain additional rights with respect to SEC registration for resale of our equity shares. See Item 7.B. Related party transactions Registration Rights Agreement.

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

4.A. History and development of the Company

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

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

Our corporate headquarters are located at Akruti Softech Park, MIDC Cross Road No. 21, Andheri East, Mumbai 400 093, India, and our North American headquarters are located at One Broadway Cambridge, MA 02142. General Atlantic made a significant investment in our company in 2002. To enhance our domain expertise in financial services and communications, media and utilities, we made selective acquisitions such as Patni Telecom (formerly Cymbal), which we acquired in November 2004. We completed our initial public offering of equity shares in India in February 2004 and our initial offering of ADSs listed on the New York Stock Exchange in December 2005. In 2007, we acquired Logan Orviss International, a European based telecommunications consulting company, and Patni Life Sciences, Inc. (formerly Taratec Development Corporation), a U.S. based life sciences consulting company to widen our telecommunications and life sciences expertise, respectively. In addition, we acquired from one of our major customers the world wide rights for a software proprietary intellectual property right that enables communication service providers to offer customer management, retail point-of- sales and billing services for a variety of products and services.

Our capital expenditures for 2007, 2008 and 2009 was $59.8million, $40.0million and $ 16.4 million respectively. These capital expenditures were primarily to finance the expansion of our existing facilities as well as the construction / purchase of new facilities in India. We anticipate capital expenditures in the rage of $ 20 million and $ 25 million in 2010, principally to finance the construction of our new facilities in Noida, Pune, Hinjewadi, Airoli - Navi Mumbai, Gandhinagar and other facilities and physical infrastructure in India. We are obliged to make certain capital expenditures under a number of contracts relating to this expansion. Estimated amounts remaining to be executed on such contracts (net of advances), aggregated approximately $ 55.6 million at December 31, 2009 to be spread over a 3 year period. We currently intend to finance our planned capital expenditure entirely from existing cash and cash equivalents and funds generated from operations.

4.B. Business overview

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

We have in-depth knowledge in our industry and technology practices. Insurance, manufacturing retail and distribution, communications, media and utilities and financial services accounted for 23.6%, 27.0%, 18.3% and 14.1% in 2007, respectively, 24.7%, 29.0%, 17.9% and 12.8% in 2008, respectively and 29.7%, 29.0% 13.5%, and 12.8% in 2009, respectively. Our technology practices offer research, design and development services for product engineering. Through our dedicated sales and management teams in each of our industry and technology practices, we believe we are able to provide better client service, effectively cross-sell services to our existing clients and develop new client relationships.

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We have a track record of successfully developing and managing large, long-term client relationships with some of the world s largest and best known companies. Our customer base has increased from 199 clients as of December 31, 2005 to 272 clients as of December 31, 2009. Several of our key executives are located in our client geographies to better develop and maintain client relationships at senior levels. Repeat business accounted for 92.4% ,93.0% and 94.0% of our revenues in 2007, 2008 and 2009.

Our revenues grew from $ 450.3 million in 2005 to $ 655.9 million in 2009, representing a CAGR of 9.9%. Our net income grew from $ 60.9 million in 2005 to $ 119.8 million in 2009, representing a CAGR of 18.4%. Our total number of employees was 11,802 as of December 31, 2005 and 13,995 as of December 31, 2009. We are investing in new high-tech facilities, which we refer to as knowledge parks , designed for expanding our operations and training our employees. We have 235 sales and marketing personnel supported by dedicated industry specialists in 28 sales offices around the globe, including North America, Europe, Japan and the rest of the Asia-Pacific region.

We have a highly qualified management team with a broad range of experience in the IT industry. Our Chairman (previously also our Chief Executive Officer) is an entrepreneur and engineer who has been in this industry for over 30 years and has led us from our inception in 1978. Most of our senior management has worked as a team with us for over 20 years. We use our competitive recruitment program to select the best talent from India s premier engineering institutions.

Industry Structure and Developments *(Source: Global Markets and IT outsourcing overview from Dataquest Insight: 4Q09 Forecast Update Shows Little Change in IT Spending Outlook(ID Number: G00173978) Report and Indian IT Industry overview from NASSCOM Strategic Review Report 2010)*

Global Markets Overview

According to the Dataquest Insight: 4Q09 Forecast Update Shows Little Change in IT Spending Outlook (*ID Number: G00173978)* report by Gartner, the headline from this IT spending forecast update is that incrementally improved global economic conditions should support a modestly larger increase in overall IT spending in 2010 compared to 2009. Following an estimated decline of 4.6% in global IT spending in 2009, our forecast for overall IT spending growth worldwide in 2010 has been increased to 4.6% this quarter versus 3.3% last quarter.

However, the relative weakness of the U.S. dollar in 2H09, which we project forward in our forecast, means that headline dollar growth in IT spending in 2010 will benefit from an exchange rate effect, which makes the growth forecast look more robust than the increase in IT spending expressed in constant dollars. When expressed in constant dollars, which excludes the impact of exchange rate movements, we have actually reduced our forecast for global IT spending in 2010 from 1.7% last quarter to 1.5% this quarter..

In addition according to the Dataquest Insight: 4Q09 Forecast Update Shows Little Change in IT Spending Outlook (*ID Number: G00173978)* report by Gartner , during the next two years IT vendors need to:

- Prepare business and marketing plans for 2010 with multiple contingencies to mitigate potential down-side risk and capitalize on potential up-side opportunity, because the speed and breadth of the recovery expected in 2010 is still highly uncertain. Indicators of economic and business health, underlying the IT market recovery, are still mixed and the market environment is unstable.

- Plan marketing campaigns, and sales and service engagements in 2010 with clearer value propositions aimed at CFOs and strategic business unit (SBU) leaders.

- Compose and train account teams to execute in the changed sales environment. This deep and prolonged recession is changing IT buying centers composition, values and dynamics

- Develop and/or expand financial models for project justification and sales training on selling to the financial buyer and business leader.

- Focus delivery organizations on the lean delivery of IT, with accelerated time to value, to appeal to the cost optimization and business goals of the IT buying center.

The global economic outlook continues to improve and, along with that recovery, there are signs that business executive confidence is returning. However, consumer confidence will remain fragile for much of 2010 with unemployment set to rise further as job creation lags behind the economic recovery.

Inventory re-stocking began in 2Q09 and will continue to provide positive impetus to IT spending growth in the first half of 2010. We expect end market demand to begin to gather pace from the second half of 2010 as the economic recovery takes hold, while delayed spending will be switched back on and pent up demand will be released. Emerging economies, which suffered more moderate recessions than mature countries and regions such as the U.S. and Western Europe, will lead the recovery. Later, as IT spending priorities shift from cost optimisation to supporting business growth in a healthier global economy, spending on new technologies will accelerate.

(Disclaimer The Gartner Report described herein, Dataquest Insight: 4Q09 Forecast Update Shows Little Change in IT Spending Outlook (ID Number: G00173978) represent) data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. (Gartner), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Prospectus) and the opinions expressed in the Gartner Report(s) are subject to change without notice)

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Indian IT Industry Outlook

Nasscom Strategic Review 2010 states that the year 2009 ushered turbulence, with countries around the world plunging into the recession. The housing bubble burst, followed by the financial crisis creating a domino effect that, but, brought the world to a standstill. While robust fundamentals ensured that the recession impact on India was relatively moderate, in an increasingly globalised environment, it could not escape declining GDP growth, rising unemployment and weakened consumer demand. However, prompt action by governments across the world and stimulus packages helped to contain this downfall and make way for revival by the end of 2009.

The industry is estimated to aggregate revenues of $73.1 billion in FY2010, with the IT software and services industry accounting for $ 63.7billion of revenues. During this period, direct employment is expected to reach nearly 2.3 million, an addition of 90,000 employees, while indirect job creation is estimated at 8.2 million. As a proportion of national GDP, the sector revenues have grown from 1.2% in FY1998 to an estimated 6.1% in FY2010. Its share of total Indian exports (merchandise plus services) increased from less than 4 % in FY1998 to almost 26% in FY2010.

Export revenues are estimated to gross $ 50.1billion in FY2010,growing by 5.4%over FY2009, and contributing 69% of the total IT-BPO revenues. Software and services exports (including BPO) are expected to account for over 99% of total exports, employing around 1.8 million employees.

The industry s vertical market mix is well balanced across several mature and emerging sectors. 2009 saw increased adoption of outsourcing from not only our biggest segment i.e., the Banking, Financial Services and Insurance (BFSI), but also new emerging verticals of retail healthcare and utilities.

According to the report ,the beginning of the new decade heralds the slow, but steady end of the worst recession in the past 60 years. Global GDP, after declining by 1.1%in 2009, is expected to increase by 3.1%in 2010,and 4.2% in 2011,with developing economies growing thrice as fast as the developed economies. Improving economic conditions signifying return of consumer confidence and renewal of business growth, is expected to drive IT spending going forward. IT services is expected to grow by 2.4% in 2010, and 4.2% in 2011 as companies coming out of recession harness the need for information technology to create competitive advantage. Organizations now recognize IT s contribution to economic performance extending beyond managing expenditures. They expect IT to play a role in reducing enterprise costs, not merely with cost cutting but by changing business processes, workforce practices and information use. Movement toward SaaS and cloud computing, shared services, and more selective outsourcing will take firmer shape as near-term priorities to address constrained IT budgets.

Government IT spending continues to rise across the world, focusing on infrastructure, and security. Other areas of spending include BPM, data management, on demand ERP, virtualization, and efforts to increase and deliver enterprise managed services on IP networks. Business process outsourcing spending in 2010 is expected to be increasingly driven by F&A segment and procurement, followed by HR outsourcing. Providers will increase their focus on developing platform BPO solutions across verticals and services.

Growth in outsourcing is expected to supersede overall IT spend reaffirming its potential to not only support short term, tactical goals of cost savings, but also long term advantages of increased competitiveness, efficiencies and access to emerging markets. Within outsourcing, off shoring will see increased acceptance as off shore based providers grow and traditional service providers ramp up off shore delivery capabilities.

India s technology and business services industry has flourished in the last decade. A bright future lies ahead and the industry has much to look forward to, with the potential to quadruple its revenues over the next decade. Several macro-economic and social trends will support the rise of the IT-BPO sector in the future, in core and emerging markets.

Our Delivery Model

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

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

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Our Competitive Strengths

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

Focused Industry Expertise

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

Successful Client Relationships

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

Extensive Suite of IT Services

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

Delivery and Operational Excellence

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

Highly-skilled Professionals

We have a highly qualified management team with a broad range of experience in the IT industry. Our Chairman (previously also our Chief Executive Officer) is an entrepreneur and engineer who has been in the IT industry for over 30 years and has led us from our inception in 1978. Most of our senior management team has worked as a team for over 20 years. We use our competitive recruitment program to select the best talent from India s premier engineering institutions.

Our Strategy

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

Penetrate and Grow Strategic Client Accounts

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

Strengthen and Broaden our Industry Expertise

We intend to strengthen our understanding of key industries by investing in a strong base of industry experts, business analysts and solutions architects as well as considering select from targeted acquisitions. We believe that we can add more value than a general service provider because we understand the specific industry requirements of our clients.

Strengthen and Broaden our Service Lines

We aim to deepen our existing client relationships through new and more comprehensive service lines. In recent years we have added new capabilities in line with our growth and customer needs. We continually explore

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new initiatives through our internal centers of excellence, which focus on innovation in specific technology platforms or services. For example, we added quality assurance services as a new service line, and developed increased capabilities such as business intelligence, database administration and legacy system modernization in other service lines.

Optimize and Expand Delivery Capability

We are committed to enhancing our processes and methodologies by investing in project management tools that improve our efficiency. We aim to develop new productivity tools, refine our software engineering techniques and maximize reuse of our processes. For example, we use automation testing to increase the efficiency of our project methodologies and for process management, defect tracking, audit management and contract management. We also apply this commitment to our infrastructure and we are constructing new knowledge park campuses in India to provide world-class infrastructure, high standards of quality and secure delivery.

Build our Brand Globally

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

Pursue Strategic Acquisitions

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

Industry Practices, Technology Practices and Service Lines

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

Industry Practices

Insurance

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

- systems consolidation and integration of mergers and acquisitions;
- policy administration conversions;
- development of frameworks that reduce the cycle time and cost for policy issue and claim handling;
- new product (life and retirement) introductions;
- batch system optimization;
- data mining;
- development of business intelligence applications; and
- legacy support of several applications.

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

Manufacturing Retail and Distribution

Our manufacturing, retail and distribution practice offers IT and business process outsourcing services that support the purchase, sales, production, engineering, finance, human resources and legal functions of a manufacturing company. Within the manufacturing industry, the sectors we service include consumer goods and

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durables, electronics, engineering, food and beverages, personal care products, paper, rubber products, life sciences and pharmaceuticals. To businesses in these sectors, we provide IT services in the following areas:

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

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

Retail

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

Logistics & Transportation

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

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

Financial Services

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

- architecture design;
- application integration and development;
- information security assessments;
- legacy system maintenance;
- business intelligence;
- customer relationship management;
- mutual funds and benefits administration;
- portfolio accounting and reporting;
- stock exchange and brokerage house solutions; and
- business process outsourcing.

Communications, Media and Utilities

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

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

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

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- implementation and maintenance;
- quality assurance;
- new product development and launch;
- infrastructure management services;
- business process outsourcing; and
- IT outsourcing.

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

Energy & Utilities

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

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

Technology Practice

Product Engineering

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

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

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

- *Software*
- Shrink wrapped and platform vendors
- System software
- Application framework vendors
- ASP (Active server pages), Vertical ISV
- *Electronics*
- Embedded software
- Hardware design
- Very large scale integration (VLSI) / Field programmable gate arrays (FPGA) design
- Packaging (Computer Aided Design / Computer Aided Manufacturing)
- *Mechanical/Electro-Mechanical*

- Product life cycle management / Product data management
- Computer aided engineering/ Computer aided design / Computer aided manufacturing

Service Lines

Application Development

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

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developed expertise in mainframe, client-server and internet technologies and on emerging platforms such as .NET and J2EE.

Application Maintenance and Support

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

Packaged Software Implementation

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

- consulting services, which include functional and technical assessment, architecture and technology consulting and training;

- implementation services, which include product implementation and rollout;

- application care services, which include post-implementation support, product customization, interface development and version upgrade; and

- functional extensions and integration of diverse enterprise applications.

Infrastructure Management Services

We offer full support services of the IT infrastructure and remote managed services of applications, network and hardware infrastructure for our clients. These services are delivered both at customer locations and from our offshore facilities located in India. We specialize in mainframe and client-server operating systems, a wide range of data and voice networks, enterprise management systems, infrastructure products from well-known vendors, web-server products, network security products, disaster recovery and business continuity management. From our network operations center in India we have the facility, hardware and technology to deliver remote managed services to our customers. Our service offerings address several managed services configurations such as traditional, integrated and automated remote monitoring, and management and reporting for enterprise-wide infrastructure environments including hardware, communications and software environments.

Product Engineering Services

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

Business Process Outsourcing

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

Quality Assurance Services

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

Quality and Project Management

While quality always has been an integral part of our operations at Patni, we became formally certified and assessed for quality models in 1995. We started with ISO 9000-1994, underwent SEI-CMM level 4 and 5 assessments and as of today are ISO 9001-2000 certified and are assessed for P-CMM Level 3 and SEI-CMMi

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Level 5. ISO 9001 is an international standard for quality management systems maintained by the International Organization for Standardization. The Capability Maturity Model (CMM) is a method for evaluating the quality of a company s management and software engineering practices, with Level 5 being the highest attainable certification. The CMM was developed by the Software Engineering Institute (SEI) at Carnegie Mellon University. The Software Engineering Institute subsequently released a revised version known as the Capability Maturity Model Integration (CMMi). We have been using the Six Sigma Program to implement process changes including the above. We continuously strive to better our quality management system with the help of industry best practices and research findings. Our quality management system involves the review and continuous improvement of software development and related processes, testing of work products and regular internal and external quality audits. We apply sophisticated project management and solution deployment methodologies that we have developed to help ensure timely, consistent and accurate delivery of IT solutions to our clients. In 2009 we have received the following recognitions:

- Ranked 40th amongst the top technology providers for financial institutions in the FinTech 100 - 2009 list.

- Listed in the Global Services 100 2009 , instituted by Global Services and neoIT:

- Ranked 7th among Top 10 best performing IT Infrastructure Service Providers

- Ranked 8th among Top 10 best performing IT Service Providers .

- Named a Niche Player in Gartner s Magic Quadrant for CRM Service Providers, North America, 2009 Report.

- Named a Challenger in Gartner s Magic Quadrant for Help Desk Outsourcing, North America, 2009 Report.

- Listed among the Top 20 India-Centric BPO players in Competitive Landscape: Business Process Outsourcing, India - 2009, by Gartner.

- Listed in the Black Book of Outsourcing 2009 :

- Ranked # 1 Life Sciences Information Technology Outsourcing Vendor

- Ranked # 1 Product Development and Engineering Outsourcing Vendor

- Ranked # 2 Property and Casualty: Automotive Insurance BPO Player

- Ranked # 4 Health Insurance BPO Player

- Ranked # 8 HomeOwners BPO Player

- Listed among the Top 10 End-to-end Insurance BPO/ITO Services Providers

- Ranked among Top 15 Best Managed Global Outsourcing Vendor of 2009 in the Annual Client Experience Survey.

- Ranked as # 1 Green Innovative IT Vendor in the 2009 Black Book Top Green Outsourcing Vendors Survey.

- Named the 2009 IT Supplier of the Year by Weyerhaeuser, a leading provider of integrated forest products.

- Ranked among the Top 20 in DQ-IDC s Best Employer Survey 2009 ; also ranked as the 7th Preferred Employer .

- Listed as a regional level award winner at the 4th Employer Branding Awards 2009-10 under the Innovative retention strategy and Excellence in training categories.

Centers of Excellence

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

Sales and Marketing

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

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

We undertake detailed periodic reviews to identify existing and prospective clients that we believe can develop into large, strategic clients. We intend to focus on adding more strategic accounts, which we define as those who provide $ 5.0 million or more in annual revenues or those with whom we believe we have the potential to achieve such annual revenue amounts over a 24 to 30 month period. For each strategic client, a senior executive is identified and charged with managing the overall client relationship and leading periodic reviews with the client.

We have 28 sales offices across North America, Europe, Japan and the rest of the Asia-Pacific region and 235 sales and marketing personnel who are supported by dedicated industry specialists. We set targets for our sales personnel at the beginning of each year, which are subject to periodic reviews. In addition to a base salary, our compensation package for sales personnel includes an incentive-based compensation plan driven by achievement of the prescribed sales targets.

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

Clients

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

	Fiscal year ended December 31,		
	2007	2008	2009
United States	77.9%	75.9%	78.9%
Europe	14.7%	15.7%	12.7%
India	0.8%	0.9%	1.0%
Japan	3.0%	3.5%	3.5%
Others	3.6%	4.0%	3.9%
Total	100.0%	100.0%	100%

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

	Fiscal year ended December 31,		
	2007	2008	2009
Insurance	23.6%	24.7%	29.7%
Manufacturing, retail and distribution (1)	27.0%	28.9%	29.0%
Financial Services	14.1%	12.8%	12.8%
Communications, media and utilities(2)	18.3%	17.9%	13.5%
Product Engineering	17.0%	15.7%	15.0%
Total	100.0%	100.0%	100%

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

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

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

	Fiscal year ended December 31,		
	2007	2008	2009
State Farm Insurance	9.1%	9.8%	11.9%
General Electric	11.8%	10.7%	10.3%
Top 5 Clients	34.8%	32.7%	36.5%
Top 10 Clients	47.6%	45.6%	49.7%

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

	Fiscal year ended December 31,		
	2007	2008	2009
No. of $ 1 million + clients	84	92	92
No. of $ 5 million + clients	31	30	26
No. of $ 10 million + clients	14	19	15
No. of $ 25 million + clients	5	5	4
No. of $ 50 million + clients	2	2	2

Contractual Arrangements

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

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

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

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

Competition

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

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

- international IT services companies, such as Accenture, Cognizant Technology Solutions, Computer Sciences Corporation Sapient Corporation;

- divisions of large multinational technology firms such as IBM, and Hewlett-Packard

- in-house IT departments of large corporations;

- other international, national, regional and local firms from a variety of market segments, including major international accounting firms, systems consulting and implementation firms, applications software firms, service groups of computer equipment companies, general management consulting firms, programming companies and temporary staffing firms;

- offshore service providers in other countries with low wage costs such as China and the Philippines, and countries in Eastern Europe and Latin America; and

- involvement of third party intermediaries who negotiate IT services and outsourcing contracts on behalf of their clients.

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

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

Innovation

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

Service and Technology Initiatives

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

Delivery Innovation

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

Human Resources

We employed 14,945, 14,894 and 13,995 employees as of December 31, 2007, 2008 and 2009, respectively. Out of 13,995 employees, 11,102 were software professionals. Of these software professionals, 2,372 employees were categorized as onsite and 8,730 as offshore. The geographic breakdown for our employees as of December 31, 2009 was as follows:

Geography	**Number of Employees**
India	11,264
North America	2,203
Rest of the World	528
Total	13,995

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

Recruitment

Our hiring plan is driven by annual budgets, business requirements and also based on business forecasting and business plans for next couple of years. Manning and wage bills are tracked on a regular basis through various MIS reports by management. We recruit talent from premier universities, colleges and institutes in India, including the Indian Institutes of Technology, known as IITs, National Institutes of Technology or NITs (formerly, RECs), and Indian Institutes of Management (IIMs). For our offshore facilities located in India, our campus recruiting team visited over 130 campuses in 2009. Software candidates are put through a series of tests and interviews such as Aptitude, Technical, Language Proficiency & Psychometrics Test followed by Technical & Behavioral Interview as a part of selection process. We have a similar competitive recruitment program in place

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for our lateral hires. All new hires are inducted into our organization through a structured orientation program, which involves extensive training as well as mentoring. We have a strong competitive hiring process in place which is ably supported by a highly skilled global hiring team to attract talent globally.

Our software employees are highly-skilled and have diverse educational backgrounds. As of December 31, 2009, graduate engineers comprised 67.03%, post graduate engineers comprised 4.67%, employees with master s degrees in computer applications or computer management comprised 12.73% and employees with masters in business administration and equivalent qualifications comprised 3.80% of our software professionals. Other degrees comprised 11.77% of our software professionals.

We believe that we have a balanced mix of experience with approximately 28.6%, 33% and 38.4% of our software professionals with work experience of less than 3 years, 3 to 6 years and over 6 years, respectively, as of December 31, 2009.

Learning and Development

As a part of our strategy, we have technical, behavioral and role based training for our employees. These training courses facilitate the trainees to acquire required skills in a short span of time. The courses offered have been designed and developed by a pool of experienced trainers and technical leaders. We also have a transparent evaluation system for tracking performance and identifying potential that results in individual development plans or IDPs that help build capabilities and recognize preferences of our employees. These training programs are customized to suit training needs of the customers. We also have a rich set of eLearning Programs for self learning as well as blended learning. In addition we also provide Interactive online training through the Internet/Intranet in Virtual Classroom mode. In 2009 we have launched the Patni Leadership Academy which will focus on Leadership Development for building our global leaders..Our training plans are personalized and address both technical and soft-skill requirements. For each software professional, we plan a minimum of 10 working days of training per year. Such multiple avenue have been listed below:

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

- **BITS:** This initiative was started in March 2004, where in Patni had a tie up with BITS Pilani for MS Software Engg and MS Embedded Systems. Totally about 39 people have got the masters degree

- **Technology Certifications for Developers**

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

- **Technology Certifications for Designers**

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

- **New Managers Development Programme**

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

Compensation

Considering the demand-supply gap in the talent pool, we believe it is important to overall align our compensation strategy in line with market. We have a developed model to track our compensation to market benchmarks systematically and arrive at a competitive pay and benefit structure. We believe that the salaries and benefits that we offer to our software professionals are competitive in the industry. We revise our compensation packages annually based on industry benchmarks, role criticality and individual performance. We seek to make our compensation more attractive for both existing employees and prospective new hires by introducing special project incentives / skill / performance based incentives in addition to the regular salaries. We have introduced variable pay compensation across levels in order to align the individual performance to our overall organisation business objectives. We also grant stock options to our senior employees to nurture the spirit of ownership and commitment towards the company. For more information on the terms of the stock option plan, see item Item 6.E. Directors, Senior Management and Employees Share Ownership Employee Stock Option Plan.

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Retention

We believe it is important to retain talent and critical resources to stay competitive in our business. We seek to attract, nurture and retain employees with a strong focus on skill development; role enhancement and higher employee interaction. Our human resources philosophy seeks to provide a comprehensive development Employee Experience to the employees that begins when a new recruit joins the company until the time such person leaves. Some of our key human resources initiatives aim to attract and retain the talent are Just Joined, FOUR, Fresh Eyes and E-induction for new employees and Patni Explorer, Knowledge Management, eDude, Assessment Centers, Leadership excellence at Patni (LEAP), specialized development programs such as executive management programs and MS (collaborative) programmes in software engineering from BITS, Pilani for the existing employees. These initiatives have been well received and appreciated by our employees across levels. In addition, we have also initiated activities, such as e-Care, skip level meets and communication meets with senior management to promote two-way transparent communications between management and the other employees. Some of our HR practices, include rewards such as the appreciation board, valuable contribution awards, pat on the back awards and employee touch point, all of which form a part of our HR retention strategy. We have conducted an Employee Engagement Survey launched by Hewitt to determine the engagement levels of employees. We seek to implement human resource practices and policies in line with the market best practices to make it more employee friendly and as a strong retention tool.

We have won recently two awards at the World HRD Congress in the regional round held at Pune under the Employer Branding Category for our Innovation Retention Strategy.

None of our employees are represented by a union. We believe we have positive relations with our employees.

Seasonality

Our IT services business is not affected by seasonality.

Government Regulation

Regulation of our business by the Indian government affects our business in several ways. Currently, we benefit from tax holidays given by the Government of India for the export of IT services from specially designated software technology parks, or STPI s, and special economic zones, or SEZs, in India. These tax incentives currently include a 10-year holiday from the payment of Indian corporate income tax for the operations of most of our Indian facilities in STPI s, and for units in SEZ s these benefits include 100% tax exemption for 5 years from date of commencement of operations and thereafter 50% tax exemption for another 10 years on fulfillment of certain conditions. As a result of this tax incentive, a substantial portion of our pre-tax income has not been subject to significant tax in recent years.

The aggregate benefit of these tax holidays and deductions with respect to our net income was $28.9 million $27.3 million and $27.1 million for 2007,2008 and 2009 respectively. Our current tax holidays for STPI units expire in stages by 2011. The tax benefits available for some of our facilities have expired and certain others will expire upon completion of 10 years or March 31, 2011.However the tax holiday for the export of IT service from our SEZ unit will continue to get tax holidays for 15 years from date of commencement of operations as described above. Consequently, we expect our effective tax rate to increase.

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

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

Intellectual Property

We rely on a combination of copyright, trademark and design laws, confidentiality procedures and contractual provisions to protect our intellectual property, including our brand identity. We currently do not have any patents. We have registered our trademark and service mark Patni in the U.S., U.K., Germany, Sweden, Japan, Singapore, Korea, Australia, Canada, the Netherlands and in Class 9, 16 and 42 in India and have applied to register our trademark and/or service mark in China . We also have 28 trademarks registered in India and one other trademark registered in European Region. We also have 24 trademarks pending for registration in India and one another trademark pending registration in the U.S. Additionally, we have 3 registered copyrights in India.

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

We require our employees and subcontractors to enter into non-disclosure arrangements to limit access to and distribution of our clients proprietary and confidential information as well as our own. Generally we are responsible to our clients for complying with certain security obligations including maintaining network security, backing-up data, ensuring our network is virus free and verifying the integrity of those employees that work with our clients by conducting background checks. There can be no assurance that we will be able to comply with all such obligations without incurring any liability.

In addition, the terms of our client contracts often impose particular confidentiality and security standards. We have independently established a system of security measures to protect our computer systems from security

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breaches and computer viruses that may attempt to gain access to our communications network. We have deployed advanced technology and process-based methods to ensure a high level of security and we continually monitor such technologies to ensure that we maintain such levels consistently. Some of these components include clustered and multilevel firewalls, intrusion detection mechanisms, vulnerability assessments, content filtering, antivirus software and access control mechanisms. We use encryption techniques as required. We control and limit access to client-specific project areas.

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

4.C. Organizational structure

We have the following direct and indirect subsidiaries as of December 31, 2009, all of which are wholly-owned:

	Country of Incorporation
Patni Americas, Inc.	USA
Patni Computer Systems (UK) Limited	UK
Patni Computer Systems GmbH	Germany
Patni Comp	